

NDMS-T-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

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Direct Testimony of

DR. JOHN HALDI

Concerning

PRIORITY MAIL

on Behalf of

NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.

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District Photo Inc.,
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Seattle FilmWorks, Inc.

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AUTOBIOGRAPHICAL SKETCH

My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 680 Fifth Avenue, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

From 1958 to 1965, I was assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of Budget. While there, I was responsible for overseeing implementation of the Planning-Programing-Budgeting (PPB) system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

1 I have written numerous articles, published consulting studies, and co-
2 authored one book. Included among those publications are an article, "The
3 Value of Output of the Post Office Department," which appeared in *The*
4 *Analysis of Public Output* (1970); a book, *Postal Monopoly: An Assessment of*
5 *the Private Express Statutes*, published by the American Enterprise Institute
6 for Public Policy Research (1974); an article, "Measuring Performance in Mail
7 Delivery," in *Regulation and the Nature of Postal Delivery Services* (1992);
8 and an article, "Cost and Returns from Delivery to Sparsely Settled Rural
9 Areas," in *Managing Change in the Postal and Delivery Industries* (1997;
10 with L. Merewitz).

11 I have testified as a witness before the Postal Rate Commission in
12 Docket Nos. MC96-3, MC95-1, R94-1, SS91-1, R90-1, SS86-1, R84-1, R80-1,
13 MC78-2 and R77-1. I also submitted comments in Docket No. RM91-1.

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I. PURPOSE OF TESTIMONY

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The purpose of this testimony is to propose (i) a classification change that would permit pieces weighing up to 13 ounces to be entered as First-Class Mail (this change has an indirect but important effect on Priority Mail); (ii) an alternative procedure to project Test Year After Rates volumes and revenues by applying the estimated own-price elasticity to individual rate cells; and (iii) alternative rates for Priority Mail. These proposals, the rationale for their adoption, and their impact are explained herein.

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II. INTRODUCTION

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This testimony is presented on behalf of four intervenors: Nashua Photo Inc. ("Nashua"), which does business as York Photo Labs, District Photo Inc. ("District"), which does business as Clark Color Lab, Mystic Color Lab ("Mystic"), and Seattle FilmWorks, Inc. ("Seattle"), collectively referred to as "NDMS."¹ Each firm is a through-the-mail film processor which receives exposed film through the mail, and uses the Postal Service to return developed film and prints to its customers.

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Overview of the Film Processing Industry

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Collectively, through-the-mail film processors account for approximately 6 percent of the domestic film processing market. The remaining 94 percent of the market is divided among a large number of local, regional and national (*e.g.*, Eastman Kodak, through Qualex, Inc., and Fuji Photo Film, through Fuji Trucolor Inc.) film processing companies that rely on the general public taking its film to a drop-off location and then returning to the drop-off location to pick up the finished prints. In some localities,

¹ Although not an intervenor herein, another through-the-mail film processor, Skrudland Photo Inc., has joined with and supports the position of NDMS.

1 competitors do on-site developing and printing, and offer turn-around times
2 as short as one hour.

3 Turn-around time and service are critical considerations in the direct
4 mail photofinishing business. All four companies operate their respective
5 processing plants up to 24 hours a day, seven days a week, as demand
6 warrants. Their goal is to have finished pictures back into the mail within 24
7 hours after customers' film arrives at the plant.

8 Nashua, District, Mystic, and Seattle compete vigorously with each
9 other, but they compete even more with the multitude of local, regional and
10 national film processors described above.

11 **Mailing Practices of Nashua, District, Mystic and Seattle**

12 Mystic and Seattle supply all their customers and prospects
13 exclusively with specially designed business reply envelopes ("BREs") to use
14 when placing an order. All BREs supplied by Mystic and Seattle are
15 returned directly to each firm at its respective plant.

16 Nashua and District receive some reply envelopes that are pre-paid by
17 the customer; the remainder arrive in BREs. The vast majority of reply
18 envelopes addressed to Nashua and District are sent to post office boxes
19 around the country. Certain of these companies use the **Priority Mail**
20 **Reship Service** to expedite receipt of customer orders at their plants.

1 Packages containing customers' exposed film are received at a plant,
2 opened, processed and put into envelopes to be sent back to customers.
3 Outgoing orders are sorted and sacked. Most packages returning the
4 finished photo product to customers weigh less than one pound. All four
5 companies use an expedited dropship service to send these packages to
6 destinating SCFs, at which point the individual customer envelopes are
7 entered as Standard A mail, for final delivery. The vast majority of dropship
8 to SCFs is via **Priority Mail dropship**.

9 Each day, NDMS collectively dispatch several truckloads of sacks
10 containing these packages of finished photo products to the nearest major
11 airports, and to certain other nearby postal facilities. Nashua and District
12 believe they are among the pioneers in using Priority Mail dropship. Their
13 Priority Mail sacks typically weigh anywhere from 15 pounds up the
14 maximum of 70 pounds. When a package of prints weighs more than one
15 pound, certain companies send such packages direct, via **Priority Mail**.

16 **Priority Mail**

17 Priority Mail has been a highly profitable and successful product for
18 the Postal Service. The FY 1996 revenues and operating profit (*i.e.*,
19 contribution to institutional costs) of Priority Mail were, respectively,
20 \$3,321.5 million and \$1,681.3 million. The operating profit from Priority
21 Mail was 4.5 times greater than the operating profit of all Periodicals and all

1 **Standard B mail, combined.** Viewed differently, the operating profit from
2 **Priority Mail exceeded the combined operating profit of all domestic and**
3 **international postal classes of mail and special services combined, excepting**
4 **First-Class and Standard A.**

5 **The proposals contained in this testimony are submitted on behalf of**
6 **customers and users of Priority Mail, and are intended to improve the**
7 **product and make it even more successful.**

1 **III. PROPOSED INCREASE IN THE MAXIMUM WEIGHT**
2 **OF FIRST-CLASS MAIL**

3 At the present time, the maximum weight for a piece of First-Class
4 Mail is 11 ounces. It has not always been at that weight, however. The
5 maximum weight of First-Class Mail was changed in 1971, 1975, 1978, and
6 1988.² In Docket Nos. **R74-1**, **R77-1** and **R87-1**, the maximum First-Class
7 weight, or **breakpoint**, above which a piece is classified as Priority Mail,
8 was set to smooth the transition between First-Class and Priority Mail rates,
9 with neither a wide gap nor an overlap between the maximum First-Class
10 rate and the minimum Priority Mail rate. A review of this history makes
11 clear why the maximum weight of First-Class Mail should be increased in
12 this docket.

13 **Docket No. R74-1: Commission Increases the Breakpoint**
14 **From 12 to 13 Ounces**

15 In Docket No. R74-1, the Postal Service proposed a uniform \$0.10-per-
16 ounce First-Class letter rate (with no additional-ounce differential rate). It

² USPS-T-33, p. 20.

1 proposed the following zoned rates for one-pound-and-under Priority Mail:
2 \$1.25 (for Zones 1 through 5) and \$1.30 (for Zones 6 through 8).³

3 The Commission recommended First-Class rates of \$0.10 for the first
4 ounce, and \$0.09 for each additional ounce. As a result of its
5 recommendation for a lower decremental rate for each additional ounce, the
6 Commission also recommended raising the breakpoint between First-Class
7 and Priority Mail from 12 ounces to 13 ounces.⁴ The Commission also
8 recommended the Postal Service's proposed rates for Priority Mail.⁵

Docket No. R74-1 (PRC recommended rates)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
Based on existing 12 oz. Breakpoint	\$1.09	\$1.25	\$0.16
After recommended 13 oz. Breakpoint	\$1.18	\$1.25	\$0.07

³ *Op. & Rec. Dec.*, Docket No. R74-1, pp. 7-8, Appendix 1, Schedule A-2. The *Op. & Rec. Dec.* in Docket No. R74-1 does not refer to any Postal Service proposal regarding the breakpoint.

⁴ *Id.*, Appendix 1, Schedule A-1.

⁵ *Id.*, p. 8.

**Docket No. R77-1: Commission Reduces the Breakpoint
From 13 to 12 Ounces**

In Docket No. R77-1, the Postal Service proposed rates of \$0.16 for the first ounce of First-Class Mail and \$0.13 for each additional ounce, a minimum rate of \$1.59 for Priority Mail, and a reduction in the breakpoint from 13 ounces to 11 ounces. The Commission recommended a rate of \$0.15 for the first ounce of First-Class Mail and \$0.13 for each additional ounce, with a reduction in the breakpoint to 12 ounces.⁶ The Commission recommended a minimum rate of \$1.71 for Priority Mail (one-pound-and-under Priority Mail sent to the nearest zones)⁷ which it viewed as a direct extension of the First-Class rate schedule. It calculated the minimum rate for Priority Mail by using the rate that would apply to First-Class Mail weighing one ounce more than the breakpoint.

Docket No. R77-1 (USPS request)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
Based on existing 13 oz. Breakpoint	\$1.72	\$1.59	(\$0.13)
After requested 11 oz. Breakpoint	\$1.46	\$1.59	\$0.13

⁶ *Op. & Rec. Dec.*, Docket No. R77-1, p. 179.

⁷ At that time, even the lowest-weight Priority Mail was zoned. The minimum rate was one pound and under.

Docket No. R77-1 (PRC recommended rates)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
Based on existing 13 oz. Breakpoint	\$1.71	\$1.71	\$0.00
After recommended 12 oz. Breakpoint	\$1.58	\$1.71	\$0.13

**Docket No. R87-1: Commission Reduces the Breakpoint
From 12 to 11 Ounces**

In Docket No. R87-1, the Postal Service proposed a First-Class rate of \$0.25 for the first ounce and \$0.20 for each additional ounce. It proposed a uniform unzoned rate of \$2.40 for two-pound-and-under Priority Mail. With the existing breakpoint of 12 ounces, which the Postal Service did not propose changing, the heaviest (12-ounce) First-Class Mail would have cost \$2.45, some \$0.05 more than the lowest proposed Priority Mail rate. To prevent this anomaly, the Commission rejected the Postal Service's proposal to maintain the breakpoint at 12 ounces.⁸

The Commission, "concerned that there be a reasonable transition between the rates of regular First-Class Mail and Priority Mail," recommended a lower breakpoint so that Priority Mail rates would apply to

⁸ *Op. & Rec. Dec.*, Docket No. R87-1, p. 444.

pieces weighing more than 11 ounces.⁹ With the Postal Service's proposed rates for First-Class and Priority Mail, this meant that the rate for the heaviest (11-ounce) First-Class pieces was \$2.25, or \$0.15 less than the lowest Priority Mail rate.

Docket No. R87-1	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
12 oz. Breakpoint (USPS request)	\$2.45	\$2.40	(\$0.05)
11 oz. Breakpoint (PRC recommendation)	\$2.25	\$2.40	\$0.15

Docket No. R97-1: Postal Service Proposes No Change to Breakpoint

At present, the highest rate for First-Class Mail is \$2.62 for an 11-ounce piece. The lowest rate for Priority Mail is \$3.00 for any piece weighing up to 2 pounds. The gap, therefore, is \$0.38.

In the current case, regarding First-Class Mail, the Postal Service proposes to increase the rate for the first ounce of single piece mail by 1 cent, from \$0.32 to \$0.33. It proposes to leave the rate for each additional ounce unchanged, at \$0.23. The rate for an 11-ounce piece of First-Class Mail would thus increase by only 1 cent, from \$2.62 to \$2.63.

⁹ *Id.*

1 At the same time, the Postal Service proposes a minimum rate of \$3.20
2 for two-pound-and-under Priority Mail, with no change to the existing 11-
3 ounce breakpoint.¹⁰ Although this does not create any rate anomalies, the
4 transition cannot be described as small or smooth. Instead, it presents a
5 large differential, or “gap.”

6 Under the Postal Service’s proposed rates, the heaviest (11-ounce)
7 First-Class pieces would cost \$2.63, **fully \$0.57 less than** the lowest Priority
8 Mail rate (two-pound-and-under). When asked about this large gap, witness
9 Sharkey stated that “keeping the gap as small as possible” was a factor in
10 setting the minimum Priority Mail rate and led him to propose a percentage
11 increase to the lowest Priority Mail rate which was lower than the overall
12 percentage increase for Priority Mail.¹¹ When asked if there was a maximum
13 acceptable gap, witness Sharkey responded that “[t]he maximum gap is not
14 an arbitrary figure,” but “results from the reconciliation of a variety of factors
15 bearing on each of the respective classifications.”¹²

¹⁰ USPS Request for a Recommended Decision, Docket No. R97-1, Attachment B, pp. 6, 9. No consideration was given to changing the breakpoint. See Postal Service response to DBP/USPS-13(i)-(l) (Tr.19A/8611).

¹¹ Response of witness Sharkey to NDMS/USPS-T33-1(d) (Tr. 4/1996).

¹² *Id.*

1 The Maximum Weight of First-Class Mail Should be Increased

2 The unnecessarily large gap. Clearly, the proposed gap of \$0.57
3 between the maximum First-Class rate and the minimum Priority Mail rate
4 is not as small as possible. Moreover, no good reason has been proffered as to
5 why a gap this large should be considered acceptable. Such a large gap is not
6 readily understandable by Postal Service customers. Moreover, there is no
7 operational reason why 12- or 13-ounce pieces cannot be handled within the
8 First-Class mailstream. The breakpoint has been 13 ounces in the past, as
9 discussed *supra*. Priority Mail is a subclass of First-Class Mail. It is
10 important that there be a rational relationship between the maximum First-
11 Class Mail rate and the minimum Priority Mail rate.

12 At the same time, it is equally important that the current 11-ounce
13 maximum weight for First-Class Mail not be maintained if it results in an
14 artificially low two-pound-and-under Priority Mail rate. This rate applies to
15 80 percent of all Priority Mail volume. An artificially low two-pound-and-
16 under rate can have a disastrous effect on rates paid by mailers of zoned
17 Priority Mail due to the relatively small volume of zoned Priority Mail.

18 In Docket No. R94-1, the Commission held the two-pound-and-under
19 Priority Mail rate down to \$3.00 despite an indicated rate of approximately
20 \$3.10. The effect of setting less-than-indicated rates for unzoned 5-pound-
21 and-under Priority Mail was to force every zoned parcel over 5 pounds to pay

1 an extra 92.5 cents. The result of high zoned rates was a sharply reduced
2 rate of growth in zoned Priority Mail. (See discussion, *infra*.)

3 **Precedent and proposal. Ample precedent exists for this**
4 **proposal.** The Commission has changed the maximum weight of First-Class
5 Mail on three prior occasions, to prevent anomalies or unusually large gaps.
6 It should do so again. Assuming that the Commission accepts the Postal
7 Service's proposed rate of 23 cents per ounce for each additional ounce of
8 First-Class Mail, I propose that the maximum weight of First-Class Mail be
9 increased to 13 ounces.¹³ This will reduce the gap, provide a smooth
10 transition from the maximum rate for First-Class Mail to the minimum rate
11 for Priority Mail, and give mailers maximum options regarding how they
12 send pieces that weigh 12 and 13 ounces.¹⁴

¹³ Should the Commission recommend a rate for additional ounces of First-Class Mail that differs from the proposed 23-cent rate, the maximum weight of First-Class Mail should be adjusted accordingly.

¹⁴ The current rate for an 11-ounce piece of First-Class Mail is \$2.62. If a mailer sends a 12-ounce piece with \$2.85 postage (\$2.62 + \$0.23 for the extra ounce), despite the theoretical 11-ounce maximum weight for First-Class Mail, the Postal Service may deliver it as First-Class Mail. Response of witness Moden to NDMS/USPS-T33-31 (Tr. 11/5829).

Docket No. R97-1	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
11 oz. Breakpoint (USPS Request)	\$2.63	\$3.20	\$0.57
12 oz. Breakpoint	\$2.86	\$3.20	\$0.34
13 oz. Breakpoint	\$3.09	\$3.20	\$0.11

Volume and revenue effects. If the maximum weight of First-Class Mail is increased to 13 ounces, some pieces that are now entered as Priority Mail will likely migrate to First-Class. The estimated cross-over amounts to 77.7 million pieces at the Postal Service's proposed rates.¹⁵ The decline in Priority Mail revenues from this crossover would amount to \$248.5 million. At the same time, the crossover will increase First-Class revenues by \$226.1 million; *see* Appendix A for details.¹⁶ The net reduction in Postal Service revenues thus amounts to only \$22.5 million,¹⁷ without accounting for additional volume that could be generated by this reduction in rates.

¹⁵ Using the minimum Priority Mail rate proposed herein by NDMS, the estimated cross-over would be 100.6 million pieces, with a corresponding change in revenues for both Priority Mail and First-Class Mail; *see* Appendix A, Table A-3.

¹⁶ This proposal is made irrespective of whether the Commission recommends the rates proposed herein. Accordingly, if the Commission recommends an increase in the maximum weight of First-Class Mail, the appropriate adjustments to volume, revenues and costs need to be made regardless of whatever rates the Commission finally recommends.

¹⁷ This figure has been rounded from \$22.468 million, *see* Appendix A, Table A-2. The estimated reduction in Priority Mail revenues is \$248.529 million; the estimated increase in First-Class revenues is \$226.061 million. *Id.*

1 **IV. AN ALTERNATIVE PROCEDURE FOR VOLUME**
2 **AND REVENUE PROJECTIONS**

3 **The Standard Procedure**

4 **Forecast based on average rate change.** In this docket, as in prior
5 dockets, the Postal Service developed an elaborate econometric model that is
6 used (i) to forecast growth in demand for Priority Mail, and (ii) to estimate
7 the price elasticity of Priority Mail.¹⁸ The standard procedure has been, first
8 to project Test Year Before Rates ("TYBR") Priority Mail volume, and then to
9 use the average percentage price increase, in conjunction with the estimated
10 own-price elasticity, to forecast Test Year After Rates ("TYAR") volume.

11 **Ratio method preserves base year distribution.** Once the
12 aggregate forecast is developed, the base year volume in each rate cell is
13 adjusted by the ratio of TYAR Volume/Base Year Volume (*i.e.*, the aggregate
14 volume is distributed to the individual cells, in direct proportion to the base
15 year distribution).¹⁹ This approach is referred to here as the standard
16 procedure. It assures that the sum of the volume in all cells equals the
17 aggregate forecasted volume, **regardless of how rates change in**
18 **individual cells.**

¹⁸ *See* USPS-T-8.

¹⁹ Response of witness Sharkey to NDMS/USPS-T33-3(c) (Tr. 4/1948).

1 In other words, under the standard procedure, the volume projected for
2 each Priority Mail rate cell rests solely on the average rate increase. The
3 rate design used to achieve that average is not relevant to the volume
4 forecast. In comparison to the economic sophistication that goes into
5 projecting Before Rates volume and estimating own-price elasticity, the
6 procedure for deriving After Rates volume and revenue is remarkably naive.

7 **After rates revenue forecast.** As a final step, projected revenues
8 are derived by multiplying the rate proposed for each cell times the
9 **TYAR volume in each rate cell.** The procedure for distributing projected
10 volume over individual rate cells thus **has immediate consequences for**
11 **the revenue forecast.** The standard procedure is a reasonable shortcut
12 when all Priority Mail rates are proposed to increase by the same percentage
13 amount, as occurred in Docket No. R94-1.²⁰ Usually, however, as in this
14 docket, all rates are not proposed to increase by the same percentage amount.

15 **Widely Varying Percentage Changes Are Proposed for Priority Mail**

16 In this docket, the Postal Service's proposed rate changes for Priority
17 Mail range from a low of minus 0.30 percent (for a 30-pound parcel
18 shipped to a local destination) to a high of plus 16.00 percent (for a 70-

²⁰ In Docket No. R94-1, the Postal Service proposed an equal across-the-board percentage increase, but the Commission subsequently recommended rates that imposed widely varying percentage increases between rate cells.

1 pound parcel shipped to Zone 7). Within this wide range of individual rate
2 changes, the percentage increases (and decreases) vary from weight to
3 weight, and zone to zone, but invariably **the highest percentage increases**
4 **are reserved for weights above 20 pounds shipped to Zones 6, 7 and 8**
5 (see Table 1).

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Table 1

PRIORITY MAIL
PROPOSED POSTAL SERVICE PRIORITY MAIL RATES
PERCENT CHANGE FROM CURRENT RATES
SELECTED RATE CELLS

Weight (Pounds)	<u>L.1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
2	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
3	10.00	10.00	10.00	10.00	10.00	10.00
4	10.00	10.00	10.00	10.00	10.00	10.00
5	10.00	10.00	10.00	10.00	10.00	10.00
10	3.85	4.84	5.21	4.39	5.35	5.69
20	3.29	7.67	4.18	10.10	10.82	11.00
30	-0.30 ²¹	8.60	1.79	12.50	13.07	12.96
40	0.96	9.49	2.93	13.66	14.30	14.25
50	1.99	9.90	3.40	14.40	15.08	14.87
60	2.72	10.05	3.84	15.01	15.61	15.38
70	3.11	10.39	4.25	15.46	16.00 ²²	15.67

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**Rate Design Does Not Affect TYAR Volume in
Individual Rate Cells Under the Standard Procedure**

When changes in individual rate cells vary widely, as in the Postal
Service's proposal in this docket, a major problem exists with the
methodology employed to calculate estimated TYAR volumes for the rate

²¹ Largest decrease for Priority Mail proposed by Postal Service.

²² Largest increase for Priority Mail proposed by Postal Service.

1 cells. Specifically, the volume projected for each cell, or for a group of cells
2 (e.g., all unzoned rates above 5 pounds), **does not** vary to reflect the rates
3 proposed for the cell or cells in question. In fact, under the existing standard
4 procedure, the TYAR volume in each cell does not change, regardless of the
5 rate design, so long as the **average** rate increase does not change.²³

6 **The Standard Procedure Can Produce Counter-Intuitive Results**

7 The situation that arose in Docket No. R94-1 illustrates how the
8 existing standard procedure can produce results that, from an economic
9 perspective, are counter-intuitive and almost surely misleading. The Postal
10 Service proposed an across-the-board percentage increase that averaged 10.4
11 percent. The Commission, however, recommended a lower increase that
12 averaged only 4.75 percent.²⁴ The lower average increase caused the
13 Commission to project a higher aggregate After Rates volume than that
14 projected by the Postal Service. Then, using the standard procedure, the
15 Commission projected that all rate cells would have higher volumes than
16 those projected by the Postal Service. At the same time, the Commission
17 increased the minimum two-pound-and-under rate by only 3.4 percent, while
18 increasing zoned rates above 5 pounds somewhat more than the 10.4 percent

²³ This extreme reliance on averages brings to mind the warning that one can drown in a stream which averages only two inches deep.

²⁴ *Op. & Further Rec. Dec.*, Docket No. R94-1, Appendix G, Schedule 1.

1 proposed by the Postal Service — in some instances, considerably more. For
2 the 5- to 70-pound rate cells, the astonishing net result was as follows:
3 significantly higher rates than those proposed by the Postal Service also
4 resulted in higher projected volumes, with a corresponding higher revenue
5 projection. Thus, using the standard procedure, **higher rates and higher**
6 **volumes seemingly went hand-in-hand.** Such a result obviously defies
7 economic logic.

8 **Empirical Evidence Indicates the Standard Procedure** 9 **Needs to be Changed**

10 Does elasticity apply to individual rate cells? That is, will higher-
11 than-average rate increases in certain cells cause a higher-than-average
12 reduction in volume in these cells? To investigate this question, the change
13 in Priority Mail volume from 1993 (the Base Year in Docket No. R94-1) to
14 1996 (the Base Year in this Docket) was analyzed.

15 The current rates, implemented for Priority Mail in August 1995
16 following remand to the Commission, are heavily weighted **against** heavier-
17 weight zoned parcels, most especially in Zone L,1,2&3, Zone 4, and Zone 5.
18 These results are summarized in Table 2. The volume of **unzoned** Priority
19 Mail weighing up to 5 pounds is shown in Column 1; the volume of all
20 **zoned-rated** Priority Mail is shown in Column 2. Over these past three
21 years, the growth rates were strikingly different. **Unzoned** Priority Mail

1 grew at an annual rate of 12.6 percent, almost three times the rate of
2 **zoned-rated** Priority Mail, which increased at an annual rate of only 4.3
3 percent.

4 The data in Table 2 can scarcely be characterized as a sophisticated
5 econometric analysis. On the surface, at least, they nevertheless indicate
6 that rates affect shippers' selection of services from the Postal Service.
7 Although the data in Table 2 may not be conclusive, few economists would be
8 surprised by the result. Moreover, had the alternative procedure
9 recommended here been applied to the Commission's rates, such an outcome
10 would have been projected.

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Table 2			
Priority Mail Growth and Growth Rates 1993-1996			
		Up to 5 Lb. Unzoned Rates (1)	6-70 Lb. Zoned Rates (2)
Volume: FY 1996		898,788,931	38,483,677
Volume: FY 1993		<u>630,439,854</u>	<u>33,933,752</u>
Volume Increase		268,349,077	4,549,925
Aggregate Percentage Growth		42.57%	13.41%
Annual Percentage Growth		12.55%	4.28%

Proposed Alternative Procedure

- To prevent a recurrence of unrealistic projected volumes, such as that described above, the following alternative procedure is proposed:
- (1) I accept and adopt the Postal Service's TYBR volume forecast for Priority Mail.
 - (2) I agree that TYBR volume should be distributed to each rate cell in proportion to Base Year volume in each cell.

1 (3) I accept and adopt witness Musgrave's own-price elasticity estimate for
2 Priority Mail.²⁵

3 In projecting TYAR volume, however, I propose to apply the own-price
4 elasticity to the TYBR volume in each rate cell and the percentage change in
5 rate proposed for each cell. Under this procedure, the higher the percentage
6 increase in rate for any cell, the lower the volume — and vice versa. This
7 alteration in the standard procedure makes cell volume and revenue
8 projections depend on rate design, as they should.

9 To illustrate my alternative procedure for TYAR volume and revenue
10 projections, I have applied it to the Postal Service's proposed rates. In this
11 docket, witness Musgrave estimates that Priority Mail has a long-run, own-
12 price elasticity of -0.77.²⁶ In the Test Year, however, the full effect of this
13 long-run own-price elasticity is not felt, owing to lagged response to rate
14 changes. In the Test Year, the "effective own-price elasticity" is -0.43. With
15 this alternative procedure, Priority Mail's effective own-price elasticity is
16 applied to the volume in each individual rate cell using the formula

17
$$\text{TYAR } V_{ij} = \text{TYBR } V_{ij}(1 + \xi * R_{ij})$$

18 where

19 V = volume
20 ξ = effective TY own-price elasticity
21 R = percentage change in rate

²⁵ No basis exists for estimating different elasticities for individual cells, nor is it necessary to do so in order to utilize the alternative procedure proposed here.

²⁶ USPS-T-8.

1 i = weight
2 j = zone

3 The results of this alternative procedure are summarized in Table 3.

4

5

Table 3

6

Alternative Methods of Applying Own-Price Elasticity
to Postal Service Proposed Priority Mail Rates
(000)

7

8

9	Test Year	Standard		Difference
10	After	Postal Service	Alternative	Alt. - Std.
11	Rates	Procedure	Procedure	Procedure
12	Volume	1,087,829	1,088,680	+ 851
13	Revenue	\$4,134,386	\$4,133,916	-\$ 470
14	Cost	<u>\$2,152,301</u>	<u>\$2,152,087</u>	- \$ 215
15	Contribution	\$1,982,085	\$1,981,829	-\$ 255
16				

16

17 Source: Appendix B.

18

19 The proposed alternative procedure of applying own-price elasticity
20 within each individual rate cell reflects the volume change expected from the
21 percentage rate increase or decrease of that cell. The net result is to increase
22 Postal Service projected volume by a slight amount, 851,000 pieces, and
23 reduce revenue by a slight amount, \$470,000 (see Appendix B for details).
24 Projected costs and contribution are also reduced by a slight amount.²⁷

²⁷ Witness Sharkey presents unit costs for each rate cell in response to
UPS/USPS-T33-67 (Tr. 4/2097-2099). It is a straightforward exercise to compute
(continued...)

1

V. RATE DESIGN ISSUES

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Priority Mail competes in a highly competitive expedited delivery market. As discussed by witness Sharkey, and elsewhere in this testimony, Priority Mail suffers a number of competitive disadvantages. In order to compete successfully for the entire spectrum of packages weighing up to 70 pounds, Priority Mail needs to have a pricing structure which sufficiently compensates at every weight level and in each zone for its other disadvantages. The rates proposed here by NDMS incorporate three desirable changes in the principles/procedures used by the Postal Service to design rates for Priority Mail.

- No mark-up is imposed on the distance-related component of transportation costs;
- Within the unzoned, flat-rate weight range (up to 5 pounds), each pound increment reflects the same additional fee; and
- Presort discounts are eliminated.

These proposed changes will provide a rate structure to Priority Mail that not only reflects costs more appropriately, but is also more competitive. The following sections discuss the rationale for each proposed change.

²⁷(...continued)
revised costs by multiplying TYAR volumes in each cell by the cost in each cell.

1 **My Proposals in Docket No. R94-1**

2 In Docket No. R94-1, I proposed on behalf of Nashua and District that
3 the Commission adopt three separate principles of rate design for Priority
4 Mail:

- 5 (i) Within the unzoned, flat-rate weight range (up to 5 pounds),
6 each pound increment reflect the same additional fee;²⁸
7 (ii) Air transportation costs be divided into distance and non-
8 distance related components, enabling more accurate tracing of
9 cost incurrence; and
10 (iii) No mark-up be imposed on the distance-related component of
11 transportation costs.

12 Of these proposals, the Commission adopted the first, partially
13 adopted the second, and rejected the third. The proposal for equal pound
14 increment rates for unzoned pieces was adopted,²⁹ and it apparently has been
15 well received. Although the Postal Service has proposed in this docket rates
16 which ignore this principle, for the reasons discussed *infra*, I am proposing
17 that the Commission adhere to its prior position and retain equal increments.

18 With respect to the previous proposal that was partially adopted, I
19 propose that the Commission proceed with full implementation. In Docket

²⁸ Docket No. R94-1, N/DP-T-1, pp. 35-36.

²⁹ *Op. & Rec. Dec.* Docket No. R94-1, pp. V-39-41.

1 No. R94-1, the Commission agreed that air transportation costs should be
2 divided into distance-related and non-distance-related categories, reflecting
3 the manner in which the Postal Service compensates carriers. Specifically,
4 since terminal charges are incurred on a pound basis irrespective of distance
5 flown, these costs vary by weight alone, and should be distributed according
6 to pounds. Distance-related costs, on the other hand, should be distributed
7 according to pound-miles. In order to avoid undue disturbances to existing
8 rates, the Commission incorporated only 50 percent of the distance/
9 nondistance adjustment in that case. For Priority Mail, the adjustment made
10 was 25.8 percent, rather than 51.7 percent.³⁰

11 Although concern about undue disturbances to existing rates was
12 reasonable for the Commission in Docket No. R94-1, it is now time to take
13 the next step and recommend rates for Priority Mail which reflect fully the
14 manner in which the underlying costs are incurred.

15 In Docket No. R94-1, the Commission rejected my proposal not to
16 impose a mark-up on distance-related costs.³¹ The Commission agreed that
17 my proposal would remove this attribute which renders Priority Mail rate
18 design wholly inconsistent with rate design principles used by the
19 Commission for Periodicals and Standard A Mail. Nevertheless, the

³⁰ *Op. & Rec. Dec.*, Docket No. R94-1, pp. III-54-56, V-37.

³¹ This was the second time that my proposal was rejected, having been made in Docket No. R90-1, and its rejection was apparently based on the same reasoning both times. *Op. & Rec. Dec.*, Docket No. R94-1, p. V-38.

1 Commission feared that the proposal would have the effect of increasing
2 Priority Mail rates for shipments to the close-in zones while reducing them
3 for shipments to distant zones. The Commission used the following
4 reasoning:

5 Witness Haldi has not provided a rate structure which shows, in
6 isolation, the impact of his proposal on Priority Mail rates for
7 material sent to the close-in zones. Instead, his proposed rates
8 incorporate his distance/nondistance proposal, his proposal for
9 identical increments between two and five pounds, and the no
10 markup proposal.... The existing record does not allow the
11 Commission to evaluate the impact of volume losses in the close-
12 in zones against volume increases in distant zones. Until
13 evidence is provided on the impact of his proposal on Priority
14 Mail rates and volumes, particularly on volumes sent to the
15 close-in zones, it is not possible to thoroughly evaluate his
16 proposal. Such evidence should explain how users of Priority
17 Mail and the Postal Service will benefit by this proposal.
18 Without credible data on this subject, there is potential for
19 significant market dislocation to the detriment of the Postal
20 Service and Priority Mail users. [*Op. & Rec. Dec.*, Docket No.
21 R94-1, p. V-39.]

22 It is clear that the Commission was right, in that the record in Docket
23 No. R94-1 did not isolate the effect of the no-markup proposal. My current
24 testimony attempts to cure this defect. The way in which the Postal Service
25 presents its request in this docket makes this task relatively easy. The
26 Postal Service in this docket adopts my Docket No. R94-1 proposal to
27 separate non-distance-related air transportation costs, and even extends the
28 analysis to surface transportation costs (highway, rail and water). I agree
29 with this extension of my original proposal. In the test year, the Postal
30 Service finds combined air and surface transportation costs to be as follows:

1 distance-related, \$361,828,000; and non-distance-related, \$361,286,000,
2 showing how significant this analytical refinement actually is.³² The Postal
3 Service applies my proposal to allocate distance-related transportation costs
4 based on pound-miles, and non-distance-related transportation costs based
5 on pounds. Moreover, the Postal Service goes beyond the Commission's
6 approach in Docket No. R94-1 to treat only 50 percent of the non-distance-
7 related costs as such, treating them all in this fashion as I had proposed.³³ I
8 completely concur with this proposal as well.

9 The Postal Service, however, continues to mark up distance-related
10 transportation costs. For the reasons stated in the next section, I disagree,
11 and continue to urge that distance-related transportation costs not be
12 marked up. Therefore, although I disagree with the Postal Service's
13 continued mark-up of distance-related transportation costs, its decision to
14 propose rates based on that mark-up, when contrasted with my proposed
15 rates, presents the type of "hold-constant" comparison that the Commission
16 wanted to have on the record so that it could evaluate the effect of this
17 change in isolation. Other than my decision to maintain uniform \$1.10 rate
18 increments for unzoned 2- to 5-pound packages, the Postal Service's rates
19 and my rates reflect the contrast the Commission wanted to see.

³² USPS-33Q.

³³ USPS-T-33, p. 25, l. 14.

1 In Docket No. R94-1, the Commission apparently anticipated that not
2 marking up distance-related costs would necessarily increase rates to close-in
3 zones. This does not happen (*see* Appendix C, Table C-8). Not applying the
4 mark-up to transportation costs, however, affects costs for unzoned pieces.
5 And since unzoned pieces represent more than 95 percent of Priority Mail
6 volume, the effect on zoned Priority Mail is much less than the Commission
7 had apparently assumed. Removing the mark-up from transportation costs
8 necessarily has the effect of increasing the contribution recovered through
9 the piece and weight components. Consequently, slight increases in some of
10 the unzoned weight cells are indicated by my proposal. The indicated rates
11 actually reduce all zoned rates except the Zone 8, 6-pound rate, when
12 compared with the Postal Service's proposal.

13 **Distance-related Transportation Costs Should Not Be Marked Up**

14 *Some classes of mail have a uniform rate for delivery anywhere in the*
15 country. For those classes, the treatment of transportation costs in the rate
16 structure is not an issue. For other classes of mail, however, the rate
17 structure reflects distance-related transportation costs in one of two ways,
18 and the difference between the two approaches is striking.

19 For Periodicals, Standard A, and Standard B mail, the Postal Service
20 offers a discount to mailers who bypass part of the network and dropship to
21 destinating facilities. In each of these classes, the discount for dropshipment

1 is subtracted from a rate that includes a contingency and mark-up computed
2 on **all** costs.

3 Dropship discounts reflect what is often referred to as **top-down**
4 pricing. Interestingly, when computing the costs avoided, which support the
5 dropship discounts, no recognition of contingency or mark-up has ever been
6 included. Such discounts are based solely on the estimate of costs actually
7 avoided by the Postal Service.³⁴ Estimates of avoided costs are translated
8 into discounts via passthroughs, which can be and often are less than the full
9 amount of costs avoided. Where this occurs, the difference in rates for near
10 and far entry into the Postal network are **even less than** the Postal Service's
11 actual costs.

12 One immediate effect of the top-down approach to rate design is that
13 the entire contribution to institutional cost is reflected in the per-piece and/or
14 the per-pound element of the rate structure, while the discount for
15 dropshipment generally reflects, on average, about 90 to 100 percent of costs
16 avoided by the Postal Service. As a result, any mailer who elects not to
17 dropship (*i.e.*, who elects to forgo the discount) is, in effect, purchasing
18 transportation services from the Postal Service at close to the Postal Service's
19 marginal cost. For Periodicals or Standard A or B mail, computation of the
20 discount does not include either mark-up or contingency. When destination

³⁴ See LR-H-111 for details concerning computation of costs avoided from dropshipment in this docket.

1 entry discounts were introduced for third-class (now Standard A) mail, the
2 Postal Service testimony was clear.³⁵

3 The Postal Service's proposal is not intended to force
4 mailers into the transportation business. Destination discounts
5 should be based fairly on costs and should not include special
6 incentives. Similarly, the rates for long-distance mail
7 should be only as high as is required to cover the service
8 provided. The Postal Service is not trying to get out of the
9 transportation business. [Emphasis added.]

10 For zoned rates, such as those for Priority Mail over 5 pounds, the
11 procedure for reflecting transportation costs is **exactly the reverse of the**
12 **Postal Service's policy**. Here, the procedure is akin to **bottom-up** pricing.
13 The Postal Service first computes the **incremental** cost of transporting mail
14 to the more distant zones (rather than costs avoided by dropship entry). The
15 Postal Service then **adds a mark-up** to all distance-related transportation
16 costs.³⁶ In the case of Priority Mail, the mark-up is quite substantial, and the
17 difference in rates for near and far entry thus reflects **far more than** the
18 Postal Service's actual cost of the service provided.

19 The bottom-up approach to rate design obviously flies in the face of the
20 Postal Service's position in Docket No. R90-1 that "the rates for long-distance
21 mail should be only as high as is required to cover the service provided." One
22 result of this bottom-up approach to rate design for Priority Mail is that the

³⁵ Docket No. R90-1, direct testimony of Robert W. Mitchell, USPS-T-20, p. 101.

³⁶ Response of witness Sharkey to NDMS/USPS-T33-13 (Tr. 4/1961).

1 distance-related increment in the rate structure also includes a substantial
2 “profit,” or contribution to institutional cost.³⁷

3 These two approaches to reflecting distance-related transportation
4 costs in rates could hardly be more different.³⁸ Costs avoided are treated one
5 way, costs incurred are treated quite differently, while costs avoided and
6 costs incurred are (and should be treated as) the opposite side of the same
7 coin.

8 Allowing mailers the option to save transportation costs gives rise, of
9 course, to the possibility for consolidation and/or destination entry. This has
10 occurred in Periodicals, Standard A and even Standard B. For these classes
11 of mail, the Postal Service provides less of the intermediate services, while
12 retaining the delivery portion, which supports its network of carriers.

13 In Priority Mail, however, where the rate differentials are so much
14 more pronounced for packages that weigh more than 5 pounds, the
15 experience has been quite different. Here, consolidation and destination
16 entry are virtually nonexistent. Destination entry mailers might enjoy the
17 option of selecting more expedited delivery of their mailpieces. Instead,

³⁷ If destination entry discounts for Periodicals, Standard A, and Standard B were modified to conform with the practice for Priority Mail, the dropship discount would be increased to reflect 100 percent of costs avoided **plus** the contingency and mark-up imposed on the subclass.

³⁸ It may be argued that, in theory, debates over top-down versus bottom-up pricing are as sterile as debating whether a glass is half-full or half-empty. In practice, however, a very substantial difference exists, at least with respect to transportation costs.

1 inordinately high rates for zoned Priority Mail have pretty much taken the
2 Postal Service out of both the transportation business and the delivery
3 business for heavier-weight expedited packages.³⁹ In other words, the
4 Postal Service has lost all of this business. This is reflected by the Postal
5 Service's declining share in the heavier-weight portion of the market.

6 Priority Mail rates also do not recognize mailer worksharing from
7 dropshipment — which avoids delivery and outgoing mail processing costs.
8 In dropshipment, mailers purchase transportation from the Postal Service for
9 final delivery by another means (often another postal product, such as
10 Standard A by NDMS).

11 Recognition of such mailer worksharing (*i.e.*, destination entry and
12 dropshipment) in Priority Mail rates would especially benefit mailers of
13 heavier-weight mailpieces who currently use Standard Mail classes (which
14 offer such discounts). The Postal Service's failure to recognize such
15 worksharing in its Priority Mail rates provides another reason why heavier-
16 weight Priority Mail rates should be kept more competitive with other
17 providers of expedited delivery service.

18 Although the principle articulated by the Postal Service in Docket No.
19 R90-1 regarding the proper treatment of transportation costs is clear and

³⁹ Consolidation requires time and results in delay which is counter-productive for shippers who require expedited service, and will not occur in the absence of reasonable rates.

1 compelling, the Postal Service has never applied that principle to its zone-
2 rated classes (*e.g.*, Priority Mail). When transportation costs are viewed in a
3 context broader than worksharing passthroughs, the issue is whether
4 transportation services ought to be priced at a discount (*i.e.*, below out-of-
5 pocket cost), at cost, or marked up sharply. A precedent exists for each of
6 these options, and neither the Commission nor the Postal Service has ever
7 articulated any clear rate-making principles that would result in consistent
8 treatment for distance-related transportation costs in rate design. At a
9 minimum, I suggest that the widely disparate treatment given to the
10 different classes of mail should cease. Assuming that the Postal Service and
11 the Commission use proper costing principles, whatever is good for
12 Periodicals and Standard A should also be good for Priority Mail — and vice
13 versa.

14 Rates proposed in the next section adhere to the principle espoused by
15 the Postal Service in Docket No. R90-1. The incremental zone rates are as
16 close as possible to 100 percent of actual distance-related cost, plus a
17 contingency of 1 percent. In other words, **rates proposed here reflect a**
18 **100 percent passthrough of distance-related costs** incurred by the
19 Postal Service to transport mail. The concept of 100 percent passthrough for
20 costs avoided or incurred is neither new nor novel. What is new is the desire
21 to develop and apply principles of ratemaking based on proper economic
22 principles which transcend class and circumstance.

1 **Retain Uniform Incremental Rates for Priority Mail**
2 **Pieces that Weigh Between 2 and 5 Pounds**

3 Unzoned, uniform rates for Priority Mail paying the 3-, 4- or 5- pound
4 rate were first adopted in Docket No. R90-1. In that docket, the increment
5 between zoned rates varied in a manner that was almost surely meaningless
6 to many Priority Mail users. Each increment depended upon the underlying
7 cost that was averaged across all zones. In other words, the Priority Mail
8 rate for a 2-, 3-, 4- or 5-pound package incorporated extremely wide
9 averaging across all eight zones, but there was little or no averaging between
10 different weights.

11 In Docket R94-1, in response to a proposal made by Nashua and
12 District, the Commission considered at length and recommended a uniform
13 increment (\$1.00 per additional pound) between each unzoned rate. (This is
14 analogous to the uniform increment for each additional ounce of First-Class
15 Mail.) It presents the mailing public with a simplified, understandable rate
16 structure. Moreover, so long as rates are unzoned, a uniform increment for
17 each additional pound appears eminently sensible.

18 In this docket, the unzoned Priority Mail rates proposed by the Postal
19 Service depart from the principle of even increments adopted in Docket No.
20 R94-1.⁴⁰ The Postal Service offers no cost justification whatsoever for this

⁴⁰ The first increment proposed by the Postal Service is \$1.20, followed
by subsequent increments of \$1.10.

1 move. The rationale apparently is based on a desire to restrain (i) the
2 increase in the minimum 2-pound rate (at the expense of all heavier-weight
3 pieces), and (ii) the “gap” between the minimum Priority Mail rate and the
4 maximum (11-ounce) First-Class rate, while meeting the target contribution
5 for Priority Mail.

6 The unzoned rates proposed by NDMS retain the Commission’s
7 principle of even increments. This is achieved by increasing the minimum 2-
8 pound rate to \$3.30, so that the increment for each additional pound is \$1.10.
9 (Additional discussion of the rationale for this change is set out, *infra*, in
10 Section VI.) Rates proposed for 3-, 4- and 5-pound packages are identical to
11 those proposed by the Postal Service.

12 **Elimination of Presort Discounts**

13 In this docket, the Postal Service proposes to eliminate the 10-cent-
14 per-piece presort discount for Priority Mail. As witness Sharkey points out,
15 this rate category is little used, and has limited volume. Reasons for the
16 small usage of the presort discount are several.

17 First, presorting by mailers requires extra space, labor and possibly,
18 sorting equipment. In other words, presorting costs money, and the 10-cent
19 discount is gross savings to mailers. After taking account of the cost to
20 presort, net savings may be small or even nonexistent.

1 Second, presorting requires that mail be held and “massed” until the
2 volume is sufficient to meet the required minimum. This may be considered
3 counter-productive by mailers who are using Priority Mail because they want
4 to expedite packages to addressees. As discussed in Section VII, *infra*,
5 actual delivery performance of Priority Mail is already too inconsistent and
6 unreliable for what purports to be a premium service. Any mailer with
7 enough volume to presort inevitably will also have experienced the
8 inconsistent delivery service provided by Priority Mail. Under the
9 circumstances, it makes little sense to retain Priority Mail at the originating
10 point for a mere 10-cent presort saving. The best way to expedite Priority
11 Mail is to enter it with the Postal Service as soon as possible, not hold on to it
12 to obtain a tiny discount.

13 In conclusion, I concur with the Postal Service’s recommendation to
14 discontinue the presort discount for Priority Mail. Accordingly, the NDMS
15 rates proposed herein do not provide for such a discount.

VI. PROPOSED PRIORITY MAIL RATES

Highlight of Proposed Rates

The rates proposed herein (Table 4) have been designed to provide the same contribution in excess of volume-variable costs as the rates proposed by the Postal Service. These rates thus enable the Commission to weigh on an apples-to-apples basis the merits of the alternative rate design proposed here without any complications that arise from a different level of coverage. For reasons discussed in Section VII, *infra*, the Commission should consider reducing the coverage on Priority Mail, regardless of the rate design which it finally recommends.

No changes are proposed in the basic rate structure for Priority Mail. Rates for packages weighing up to 5 pounds are unzoned, and rates for packages that weigh more than 5 pounds continue to be zoned. Also, the rates presume that a flat-rate envelope may be sent at the two-pound rate regardless of the actual weight of the piece.

In keeping with the Commission's practice, all rates have been rounded to the nearest nickel. Rates proposed here distinguish between distance- and non-distance-related transportation costs, as discussed in Section V of this testimony.

1 **Unzoned rates.** Within the 2- to 5-pound range of unzoned rates, the
2 minimum rate for a 2-pound piece is \$3.30, which is 10 cents greater than the
3 \$3.20 rate proposed by the Postal Service. For packages weighing up to 3, 4
4 and 5 pounds, the additional fee is a uniform \$1.10 per pound. Moreover,
5 these three unzoned rates are identical to those proposed by the Postal
6 Service. Consequently, they do not create any new anomalies with rates
7 proposed for Standard B parcel post packages of 3, 4 and 5 pounds.

8 **Zoned rates.** Above 5 pounds, all rates are zoned. For any given
9 weight, the incremental fee for sending a piece to a more distant zone reflects
10 distance-related transportation cost plus a 1 percent contingency; *i.e.*, the
11 increment in the fee reflects a 100 percent passthrough of distance-related
12 transportation costs, plus contingency.⁴¹ The biggest change occurs in the
13 rates for Zone L, 1, 2 & 3. These rates decline somewhat, reflecting the lower
14 cost of surface transportation.

15 In every instance, the zoned rates proposed here are lower than those
16 proposed by the Postal Service. The reduction in rates to Zones 6, 7 and 8
17 creates certain anomalies with rates proposed for Standard B parcel post.
18 For reasons not altogether clear, the cost of long-distance surface
19 transportation used for parcel post appears to be somewhat higher than the

⁴¹ In this docket, for the first time, the Postal Service has distinguished and identified clearly all distance- and non-distance-related costs for all modes used to transport Priority Mail. Through Zone 4, distance-related costs reflect a mix of surface and air; beyond Zone 4, air transportation is used exclusively.

1 cost of air transportation.⁴² Assuming the Commission recommends the rates
2 proposed here, parcel post rates should be adjusted accordingly. This is the
3 approach that has been taken historically. Priority Mail is a highly
4 profitable product, and each rate cell of Priority Mail is also clearly
5 profitable. Volume and revenues of parcel post, by contrast, are much
6 smaller, and parcel post is only marginally profitable. It would not make
7 good business sense to raise Priority Mail rates to an artificially high level
8 just to prevent an anomaly with parcel post rates.

9 In connection with this proposal to reduce local rates, it is worth
10 noting that where rates are not zoned — *i.e.*, for packages weighing up to 5
11 pounds — and where mailers incur no extra fee for sending packages greater
12 distances, 50 percent of total Priority Mail volume is within Zone L,1,2&3. *A*
13 *priori*, one might have expected mailers to take advantage of unzoned rates
14 by using Priority Mail for a disproportionate share of their long-distance
15 shipments. Interestingly, however, exactly the opposite has occurred. For
16 packages that weigh more than 5 pounds where rates are zoned, only 35
17 percent of total Priority Mail volume is to Zone L,1,2&3. Thus, while all

⁴² Parcel post travels with other classes of mail, and the transportation costs distributed to parcel post are a result of TRACS. The high unit cost of transporting parcel post may be “real” (in which case the Postal Service should divert long-distance parcel post to Priority Mail), or it may be nothing more than an artifact of TRACS.

1 zoned rates for Priority Mail are too high,⁴³ the rates most out of line with
2 competition may be the local zoned rates. If so, this reduction in local rates
3 would appear to be highly desirable.

4 **Pickup service.** The Postal Service has proposed a 67 percent
5 increase in the pickup service fee, from \$4.95 to \$8.25. The increase proposed
6 for this fee appears exorbitant. At the same time, however, this pickup fee
7 applies to Express Mail and parcel post, as well as Priority Mail. It would
8 not make sense to retain the old fee for Priority Mail while increasing it for
9 the other classes. Accordingly, I do not present any alternative to the Postal
10 Service's proposed \$8.25 fee for pickup service.

⁴³ The extra 92.5 cents currently being paid on average by every zoned parcel as the result of the artificial reduction in the unzoned weights following Docket No. R94-1 is discussed *supra*.

Table 4

Priority Mail
NDMS Proposed Rates

Weight (Pounds)	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
FLAT	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30
2	3.30	3.30	3.30	3.30	3.30	3.30
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.70	6.90	7.00	7.70	7.95	8.80
7	6.80	7.00	7.75	8.55	8.85	9.85
8	6.90	7.35	8.45	9.40	9.75	10.90
9	7.00	7.95	9.20	10.25	10.65	11.90
10	7.10	8.50	9.95	11.10	11.55	12.95
11	7.20	9.10	10.65	11.95	12.45	13.95
12	7.30	9.70	11.40	12.80	13.30	15.00
13	7.40	10.30	12.10	13.60	14.20	16.05
14	7.50	10.90	12.85	14.45	15.10	17.05
15	7.60	11.50	13.60	15.30	16.00	18.10
16	7.70	12.05	14.30	16.15	16.90	19.10
17	7.80	12.65	15.05	17.00	17.80	20.15
18	8.10	13.25	15.75	17.85	18.65	21.20
19	8.40	13.80	16.50	18.70	19.55	22.20
20	8.70	14.40	17.25	19.55	20.45	23.25
21	9.00	15.00	17.95	20.40	21.35	24.30
22	9.30	15.60	18.70	21.25	22.25	25.30
23	9.65	16.20	19.40	22.10	23.10	26.35
24	9.95	16.80	20.15	22.95	24.00	27.35
25	10.25	17.35	20.90	23.75	24.90	28.40
26	10.55	17.95	21.60	24.60	25.80	29.45
27	10.85	18.55	22.35	25.45	26.70	30.45
28	11.15	19.15	23.05	26.30	27.60	31.50
29	11.45	19.70	23.80	27.15	28.45	32.50
30	11.75	20.30	24.55	28.00	29.35	33.55
31	12.05	20.90	25.25	28.85	30.25	34.60
32	12.35	21.50	26.00	29.70	31.15	35.60
33	12.65	22.05	26.70	30.55	32.05	36.65
34	12.95	22.65	27.45	31.40	32.90	37.70
35	12.30	23.25	28.20	32.25	33.80	38.70
36	13.60	23.85	28.90	33.10	34.70	39.75
37	13.90	24.45	29.65	33.90	35.60	40.75
38	14.20	25.00	30.35	34.75	36.50	41.80
39	14.50	25.60	31.10	35.60	37.40	42.85
40	14.80	26.20	31.80	36.45	38.25	43.85
41	15.10	26.80	32.55	37.30	39.15	44.90
42	15.40	27.40	33.30	38.15	40.05	45.95
43	15.70	27.95	34.00	39.00	40.95	46.95
44	16.00	28.55	34.75	39.85	41.85	48.00
45	16.30	29.15	35.45	40.70	42.70	49.00
46	16.30	29.75	36.20	41.55	43.60	50.05
47	16.95	30.30	36.95	42.40	44.50	51.10
48	17.25	30.90	37.65	43.25	45.40	52.10
49	17.55	31.50	38.40	44.05	46.30	53.15
50	17.85	32.10	39.10	44.90	47.20	54.15
51	18.15	32.70	39.85	45.75	48.10	55.20
52	18.45	33.25	40.60	46.60	48.95	56.25
53	18.75	33.85	41.30	47.45	49.85	57.25
54	19.05	34.45	42.05	48.30	50.75	58.30
55	19.35	35.05	42.75	49.15	51.65	59.35
56	19.65	35.60	43.50	50.00	52.50	60.35
57	19.95	36.20	44.25	50.85	53.40	61.40
58	20.30	36.80	44.95	51.70	54.30	62.40
59	20.60	37.40	45.70	52.55	55.20	63.45
60	20.90	38.00	46.40	53.40	56.10	64.50
61	21.20	38.55	47.15	54.20	57.00	65.50
62	21.50	39.15	47.90	55.05	57.85	66.55
63	21.80	39.75	48.60	55.90	58.75	67.55
64	22.10	40.35	49.35	56.75	59.65	68.60
65	22.40	40.95	50.05	57.60	60.55	69.65
66	22.70	41.50	50.80	58.45	61.45	70.65
67	23.00	42.10	51.55	59.30	62.35	71.70
68	23.30	42.70	52.25	60.15	63.20	72.75
69	23.60	43.30	53.00	61.00	64.10	73.75
70	23.95	43.85	53.70	61.85	65.00	74.80

1 **NDMS' Proposed Rates are Cost-Based**

2 Rates proposed here have been developed on a bottom-up basis, using
3 the costs in USPS-T-33. The average unit cost and unit contribution are
4 developed at the rate element level.⁴⁴ Specifically, volume-variable costs in
5 each rate cell consist of the following four components:

- 6 • A per-piece amount (\$1.21);
- 7 • 2 cents per pound;
- 8 • Non-distance-related transportation costs, distributed according
9 to weight and zone;⁴⁵ and
- 10 • Distance-related transportation costs, distributed according to
11 weight and zone.

12 The resulting unit cost for each cell is provided in Appendix C, Table
13 C-2, and also in witness Sharkey's response to UPS/USPS-T33-67 (revised
14 10/6/97) (Tr. 4/2097).

15 To develop preliminary rates, a 1 percent contingency is added to all
16 volume-variable costs. The sum of the first three components is then marked
17 up by 115 percent. Next, distance-related costs (including the 1 percent

⁴⁴ This is in contrast to the procedure used by the Postal Service. See
response of witness Sharkey to NDMS/USPS-T33-4 (Tr. 4/1949).

⁴⁵ Non-distance-related costs differ as between surface and air
transportation. Priority Mail packages to zones that use surface transportation
(through Zone 4) incur lower non-distance-related costs than do packages that are
sent to zones served exclusively by air (Zones 5-8).

1 contingency) are added to each rate cell.⁴⁶ The preliminary unzoned rates are
2 then adjusted so as to have a uniform increment, without diminishing
3 revenues for pieces that weigh up to 5 pounds. Zoned rates are adjusted so
4 that (i) no zoned rate is less than an unzoned rate, and (ii) a smooth
5 transition is provided between zoned and unzoned rates. All rates are
6 rounded to the nearest nickel. Aside from the adjustments described here,
7 all zoned rates are set according to the cost-based formula set out above.

8 **Contribution and Coverage from Proposed Rates**

9 Projected volumes and revenues from Priority Mail rates proposed
10 here and by the Postal Service are shown in Table 5. In both cases, the
11 alternative procedure described in Section IV, *supra*, has been used to
12 develop TYAR volumes, revenues, costs, and contribution. Thus, the data
13 shown in Table 5 provide an apples-to-apples comparison between the two
14 proposals.

⁴⁶ All volume-variable costs thus include a 1 percent contingency.

1 since heavier-weight pieces produce more revenue, as well as greater
2 contribution per piece than lighter-weight pieces.

3 **Costs.** The volume-variable cost of delivering the volume of Priority
4 Mail that arises from rates proposed here, in comparison with the cost
5 associated with the Postal Service's proposal, is slightly less (by \$10,322,000,
6 or 0.5 percent).

7 **Contribution and mark-up.** Under rates proposed here, revenues
8 are up (slightly), costs are down (slightly), and thus the contribution exceeds
9 by a small amount, \$24,479,000, that provided by the Postal Service
10 proposal. Contribution as a percent of volume-variable costs is 93.7 percent,
11 up from 92.1 percent for the Postal Service proposal.

12 This excess contribution could have been used to effect a small
13 reduction in some of the rates proposed here. It was decided, however, not to
14 deviate from the cost-based formula described previously in order to provide
15 a direct counter-point to the Postal Service's proposed rates.

16 **Proposed Rates and the Statutory Criteria**

17 The rates proposed here for Priority Mail satisfy each of the applicable
18 statutory criteria set forth in 39 U.S.C. Section 3622(b).

19 In terms of fairness and equity, criterion (b)(1), the proposed rates
20 provide for (i) a rate increase that is above the system average, (ii) a high
21 mark-up over volume-variable cost, (iii) a higher coverage of incremental

1 cost, and (iv) a contribution that exceeds incremental cost by some \$1.7
2 billion. Priority Mail is clearly paying its share, if not more than its share, of
3 the Postal Service's institutional costs.

4 In terms of value of service, criterion (b)(2), Priority Mail has poorer
5 performance and receives a lower value of service than either Express Mail
6 or First-Class Letter Mail. Moreover, since August 16, 1996, any stamped
7 Priority Mail piece weighing more than one pound must be entered at a post
8 office counter, which denies the convenience of the collection system to a
9 substantial portion of Priority Mail.⁴⁷ In light of the delivery performance in
10 1995, 1996, and the first three quarters of 1997 (discussed in Section VII,
11 *infra*), it is difficult to justify even my proposed mark-up, much less a higher
12 mark-up.⁴⁸

13 In terms of cost, criterion (b)(3), the high mark-up over volume-
14 variable cost assures that rates proposed for Priority Mail will recover all
15 incremental costs, with ample margin for safety.

16 In terms of the effect of rate increases, criterion (b)(4), the highest
17 percentage increase proposed here for any Priority Mail rate cell is only 10
18 percent, which is less than the 16 percent increase proposed by the Postal
19 Service. The rate cells receiving the largest increases now, received the

⁴⁷ Response of witness Sharkey to NDMS/USPS-T33-11 (Tr. 4/1959).

⁴⁸ See Section VII, *infra*, for additional discussion of performance.

1 artificially small increases in Docket No. R94-1. The fact that rates proposed
2 here reflect a mark-up of 115 percent on all costs except distance-related
3 transportation cost assures that the Postal Service will not be competing
4 unfairly with private sector competitors.

5 In terms of available alternatives, Section 3622(b)(5) refers to
6 available alternatives for sending letters and other mail matter at reasonable
7 cost. This criterion has been used by the Commission to consider whether
8 customers with few alternatives ought to be protected by rates that are lower
9 than might otherwise be recommended. This is accomplished in part by the
10 companion proposal to increase the maximum weight of First-Class Mail.
11 The market for expedited delivery is highly competitive, which generally acts
12 to protect customers from excessive rates. However, rates for Priority Mail in
13 excess of 5 pounds generally appear to be non-competitive, based on low
14 market share. Thus, to the extent that this criterion applies to Priority Mail,
15 for all packages weighing more than 5 pounds, it is better satisfied by rates
16 proposed here than by those proposed by the Postal Service.

17 In terms of degree of preparation, criterion (b)(6), the Postal Service
18 proposes to discontinue the discount for presorted Priority Mail because
19 worksharing has been so little utilized by customers, hence, this criterion
20 does not appear to have much applicability to Priority Mail.

1 In terms of simplicity, criterion (b)(7), the uniform \$1.10 increment for
2 the unzoned portion of the rate schedule represents an improvement over the
3 rates proposed by the Postal Service.⁴⁹

4 **Other Considerations**

5 **Proposed rates are cost-based.** The rates proposed here are based
6 on (i) **marked-up volume-variable costs** (excluding distance-related costs),
7 **plus** (ii) distance-related transportation costs **at 100 percent passthrough**.
8 Thus developed, the zoned rates are strictly cost-based, while the unzoned 2-
9 to 5-pound rates have been averaged across zones (by definition) so as to
10 have a uniform weight increment.⁵⁰ Because the rates are cost-based, every
11 rate cell provides the Postal Service with a contribution to its other costs.
12 For selected rate cells, examples of margins, or contribution to other costs,
13 that result from the NDMS proposed rates are shown in Table 6.

14 The desirability of averting the loss of market share for highly
15 profitable heavier-weight Priority Mail parcels should be clear. Many

⁴⁹ The uniform increment is consistent with the Commission's view of
the Act. *Op. & Rec. Dec.*, Docket No. R94-1, p. V-40.

⁵⁰ Strict application of the formula used here, without averaging
between the 2-, 3-, 4- and 5-pound rates, would result in a minimum rate of \$3.40.

Priority Mail rate cells return a per-piece contribution to institutional costs that exceeds \$8.50, the contribution of 50 First-Class mailpieces.⁵¹

Table 6

Margins From NDMS Proposed Priority Mail Rates
Selected Rate Cells⁵²

Weight (lbs)	L, 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
2	1.66	1.38	1.29	1.11	1.01	0.73
5	4.32	3.63	3.41	2.97	2.70	2.01
10	3.77	3.79	4.78	5.06	4.98	4.98
20	3.27	6.19	8.14	8.70	8.52	8.54
30	4.21	8.60	11.49	12.33	12.07	12.77
40	5.15	11.01	14.80	15.97	15.62	15.65
50	6.10	13.42	18.16	19.60	19.22	19.21
60	7.04	15.83	21.51	23.29	22.77	22.82
70	7.99	18.18	24.87	26.92	26.32	26.37

Source: Proposed Rates (Table 4) - costs (Appendix C, Table C-2)

Proposed rates restore balance. It may appear that the rates proposed in this testimony unabashedly favor the zoned rates for Priority Mail pieces that weigh between 5-70 pounds. Nevertheless, two points should be considered. First, these rates apply the rate design principles set

⁵¹ The average 17.0-cent First-Class Mail (reflecting all First-Class mailpieces) after-rates contribution per piece is from Exhibit USPS-15J, p. 15.

⁵² Throughout this testimony the term “**margin**” will refer to the difference, stated as an absolute amount, between rates and volume-variable unit costs, and “**mark-up**” will refer to the percentage difference by which rates exceed unit costs. The margin thus represents a shorthand expression for per-piece contribution to the Postal Service’s other costs.

1 out herein which should be adopted. Second, it is noted that in Docket No.
2 R94-1, the Commission artificially reduced the minimum rate for Priority
3 Mail below that proposed by either the Postal Service or NDMS, while
4 increasing zoned rates substantially above those proposed by the Postal
5 Service. The rates proposed here attempt to rectify this earlier tilt in the rate
6 schedule against heavy-weight Priority Mail. Because of this, it adds
7 perspective to compare Priority Mail rates proposed by me in this docket with
8 the Priority Mail rates that were approved in Docket No. R90-1, prior to the
9 distortion of relative rates in Docket No. R94-1. Such a comparison shows
10 that under my proposed rates the minimum 2-pound rate would be up 13.8
11 percent, while selected zoned rates would change as follows:

12	Weight						
13	(lbs)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
14	10	11.8%	12.6%	16.4%	13.3%	3.6%	1.2%
15	20	-15.5	13.4	16.9	13.3	2.5	0.2
16	30	-17.8	13.4	16.9	13.1	2.1	-0.3
17	40	-18.9	13.7	16.9	13.2	1.9	-0.5
18	50	-19.8	13.6	17.1	13.2	1.8	-0.6
19	60	-20.4	13.6	17.2	13.4	1.7	-0.7
20	70	-20.7	13.6	17.3	13.4	1.6	-0.7

21 Many L,1,2,3 rates are actually reduced due to rates which better
22 reflect the reduced cost of surface transportation. The rates to intermediate
23 Zones 4, 5 and 6 are seen to have a percentage increase about the same as
24 the minimum rate. Rates to Zones 7 and 8 are essentially unchanged, in part
25 due to the lack of any mark-up on distance-related transportation costs and

1 to the categorization of terminal handling costs as non-distance-related by
2 the Commission in Docket No. R94-1.

3 In 1990, the volume of heavier-weight pieces of Priority Mail over 5
4 pounds was 27,609,000, which equaled **5.43 percent of the total volume.**
5 By 1996, the volume of heavier-weight pieces had grown only to 38,484,000,
6 **while the percentage had dropped by almost 25 percent to only 4.11**
7 **percent of the total volume.**

8 **The proposed rates make good business sense.** As noted
9 previously, the unzoned rates at the low end of the rate scale, especially the
10 minimum rate, appear to be highly competitive. This is reflected in the
11 Postal Service's large share of this portion of the expedited market (as well as
12 its advertising).

13 Over 5 pounds, Priority Mail rates are much closer to competitors'
14 **published** rates, which typically are discounted to regular shippers.⁵³ As
15 noted previously, Priority Mail suffers a number of competitive
16 disadvantages which it can only hope to overcome by means of lower rates.
17 That Priority Mail rates offer little inducement in this portion of the market
18 is evidenced by the Postal Service's small and declining market share.⁵⁴

⁵³ Response of witness Sharkey to NDMS/USPS-T33-9 (Tr. 4/1955).

⁵⁴ Priority Mail offers the advantage of convenience and easy entry to shippers who want to dropship Standard A packages to SCFs. Were it not for Priority Mail dropship, Priority Mail's share of the heavier-weight market would have lost even more volume due to the artificially high increases in rates for zoned
(continued...)

1 Why should the Postal Service care about the heavier-weight portion of
2 the expedited market? Because, as Willie Sutton said, "that's where the
3 money is!" As shown in Table 6, the **margin** on heavier-weight packages can
4 be several times the **gross revenue** from a 2-pound package. That, of
5 course, is one reason why the Postal Service's competitors have competed so
6 vigorously for that portion of the market.

7 For the stated reasons, the principles of rate design proposed here
8 would result in rates that are more beneficial for the Postal Service than the
9 rates which the Postal Service itself has proposed.

⁵⁴(...continued)

Priority Mail in Docket No. R94-1, and current volumes might be quite small indeed.

1

VII. COVERAGE CONSIDERATIONS

2 When the Postal Service originally filed its case, the coverage proposed
3 for Priority Mail was 198 percent. Subsequently, owing to revised treatment
4 of certain transportation costs, the coverage for Priority Mail was revised to
5 192 percent.⁵⁵ Even though the coverage has been revised downward, it is
6 still far higher than circumstances warrant.⁵⁶ Although the NDMS proposed
7 rates provide coverage and contribution to institutional costs comparable to
8 those of the Postal Service's proposal, *supra*, there is little justification for
9 assigning such a high coverage factor to Priority Mail. The following
10 reasons, discussed in more detail within this section, all argue against
11 maintaining a high coverage factor for Priority Mail:

- 12 • Actual performance that is far below established
13 standards;
- 14 • Effects of the new PMPC network on delivery
15 performance and cost;
- 16 • Lack of customer-desired features;
- 17 • Declining market share;

⁵⁵ Response of witness Patelunas to UPS/USPS-T33-36 (Tr. 13/7293).

⁵⁶ Furthermore, certain costs attributed to Priority Mail may be overstated, as explained in Section VIII, *infra*.

- 1 • Disparity in rates and market share between
- 2 lower and higher weights; and
- 3 • High own-price elasticity.
- 4

5 **Value of Service**

6 The Postal Service's designated expert for determining coverage,
7 witness O'Hara, based the relatively high cost coverage of Priority Mail on its
8 "high intrinsic value of service," including the following three justifications
9 for this evaluation:

- 10 • Priority Mail enjoys the same priority of delivery as
- 11 First-Class letters;
- 12 • Priority Mail receives greater use of air
- 13 transportation than First-Class, due to its larger two-
- 14 day service area,⁵⁷ and
- 15 • Priority Mail enjoys the convenience of the collection
- 16 system for the unzoned two-pound rate packages that
- 17 constitute a large share of its volume.⁵⁸

18 Of the nine criteria specified in 39 U.S.C. Section 3622(b), number 2,
19 the value of service, does indeed appear to be of considerable importance for

⁵⁷ Witness O'Hara fails to note that under the new PMPC contract (discussed below in this section) the Postal Service is moving to expand the geographic area and the amount of Priority Mail that is served by **surface** transportation.

⁵⁸ USPS-T-30, p. 27. Mailers without meters do not enjoy the full convenience of the collection system. Stamped Priority Mail pieces that weigh more than one pound must be entered with a postal clerk, and almost every collection box in the country has a notice to that effect. See response of witness Sharkey to NDMS/USPS-T33-11 (Tr. 4/1959) and response of witness O'Hara to APMU/USPS-T30-1 (Tr. 2/117).

1 **Priority Mail.** Wherever suitable, however, value of service should be based
2 on facts, not on reference to abstractions such as “standards,” or “priorities,”
3 or even “use of air transportation.” For years the Postal Service has defended
4 Priority Mail as having some special, distinctive qualities that enhance the
5 “intrinsic” value of service.⁵⁹ Unfortunately, the facts show otherwise.

6 **Actual Performance Far Below Established Standards**

7 **Delivery standards.** In the course of the last omnibus rate case, the
8 Postal Service finally admitted that it cannot deliver all Priority Mail within
9 two days, as it had advertised. For many origin-destination pairs, Priority
10 Mail has a three-day standard, even though its competitors guarantee two-
11 day delivery between the same origins and destinations. Regrettably, but for
12 good reason, many customers consider Priority Mail a three-day service
13 comparable to First-Class Mail, rather than a superior service.

14 Moreover, Priority Mail still falls far short of its promises. As
15 discussed below, the Postal Service falls woefully short of its own service
16 standard, or “commitment,” of 95-percent on-time delivery within Priority
17 Mail’s one-, two-, and three-day delivery areas. Let us review the available
18 data and facts.

⁵⁹ According to the dictionary, “priority” means taking precedence, or being superior in rank, position or privilege. Thus, the name alone gives this class of mail a certain aura.

1 **Actual performance.** Independently gathered end-to-end
2 performance data are the only truly reliable data for assessing delivery
3 performance. The lack of such data has created a sort of vicious cycle.
4 Because so few data have existed, the Commission has been unable to cite to
5 actual performance when assessing value of service, and then determining
6 appropriate coverage before setting rates. In the absence of strong urging by
7 the Commission, the Postal Service has given low priority to implementing
8 end-to-end performance measurement for important subclasses, such as
9 Priority Mail.⁶⁰

10 Finally, during the pendency of this docket, on September 13, 1997, an
11 external measurement of Priority Mail service performance was implemented
12 by the Postal Service. However, the Postal Service states that “[n]o public
13 disclosure of Priority Mail results is expected at this time.”⁶¹ This would be
14 most regrettable, since performance measurement data are the cornerstone
15 for any meaningful discussion of actual performance or value of service.

16 Unfortunately, other than ODIS, which measures time-in-transit from
17 postmark or meter date to delivery at the DDU, and indicates operational
18 performance, the Postal Service has no data available to compare First-Class

⁶⁰ The unfortunate result is akin to that of a person who knows the cost of everything and the value of nothing.

⁶¹ Response of witness Sharkey to APMU/USPS-T33-4(f) (Tr. 4/1930). The extended Priority Mail performance data are designed around the cluster level, whereas external First-Class performance data are designed around the city level. APMU/USPS-T33-6 (Tr. 4/1933).

1 to Priority Mail service.⁶² In order to break out of this cycle, one has to start
2 somewhere. Until better data are available, I urge the Commission to utilize
3 and rely on ODIS data for determining value of service.

4 **Overnight standard.** The overnight delivery areas for First-Class
5 and Priority Mail coincide.⁶³ Neither is larger than the other.

6 Furthermore, almost 50 percent of the total volume of Priority Mail requires
7 delivery within the L,1,2&3 Zone. A substantial portion of this mail
8 undoubtedly has an overnight delivery standard. A comparison of First-
9 Class and Priority Mail with overnight delivery standard thus represents one
10 possible apples-to-apples comparison that is meaningful for a significant
11 portion of the mail.

12 The ODIS data in Figure 1 span three fiscal years, 1995-1997. From
13 this figure, it can be observed readily that in every available quarter of this
14 three-year period, Priority Mail for delivery within overnight areas always
15 received poorer performance than First-Class Mail addressed to overnight
16 areas. According to these ODIS data, approximately 14.5 percent of Priority
17 Mail failed timely overnight arrival at the delivery unit, compared to only
18 5.25 percent for First-Class Mail. In other words, Priority Mail addressed to

⁶² ODIS data include only Priority Mail that is stamped or metered and has a readable postmark date. Response of witness Sharkey to NDMS/USPS-T33-10 (Tr. 4/1958).

⁶³ Response of witness Sharkey to APMU/USPS-T33-2 (Tr. 4/1928).

1 **overnight delivery areas failed timely arrival** at the delivery unit almost
2 **three times more often than** First-Class Mail. Priority Mail thus suffered
3 **far more inconsistent and unreliable service than** did First-Class Mail.

4 **Two-day service standard.** Admittedly, the two-day service
5 commitment areas for First-Class Mail are not contiguous with those for
6 Priority Mail, which must reach a wider area.⁶⁴ ODIS data for achieving two-
7 day standards show that Priority Mail **consistently performs worse than**
8 First-Class Mail. In the 11 quarters reviewed here (FY 1995-1997), Priority
9 Mail with a two-day standard failed on-time arrival at the delivery unit 24
10 percent of the time, compared to 14 percent for First-Class mail with a two-
11 day standard; *i.e.*, the two-day failure rate for Priority Mail was over 70
12 percent worse than First-Class Mail. Having acknowledged that areas with a
13 two-day standard do not coincide, it is nevertheless difficult to discern
14 anything whatsoever that is special about the performance of Priority Mail in
15 comparison with First-Class Mail.

16 **Three-day standard.** Since areas for two-day delivery are not
17 contiguous, neither are the areas for three-day delivery.⁶⁵ In some areas,
18 First-Class Mail may have an easier time achieving the three-day standard.
19 With that said, ODIS data indicate that First-Class Mail failed to meet its

⁶⁴ Response of witness O'Hara to APMU/USPS-T30-2 (Tr. 2/118), and
response of witness Sharkey to APMU/USPS-T33-1 (Tr. 4/1926).

⁶⁵ Response of witness O'Hara to APMU/USPS-T3-2 (Tr. 2/118).

1 three-day standard about 15.5 percent of the time, while Priority Mail failed
2 to meets its three-day standard about 22.3 percent of the time; *i.e.*, for the
3 three-day standard, Priority Mail had a failure rate about 50 percent greater
4 than First-Class Mail.

5 **Delivery within 3 days.** Another worthwhile comparison enabled by
6 ODIS data is the percentage of mail delivered within 3 days, **regardless of**
7 **service standard.** In this respect, Priority Mail also failed to perform as
8 well as First-Class Mail during the period FY 1995-1997. Over these 11
9 quarters, the share of First-Class and Priority Mail that failed to arrive at
10 the delivery unit within 3 days was, respectively, 6.2 and 7.5 percent.

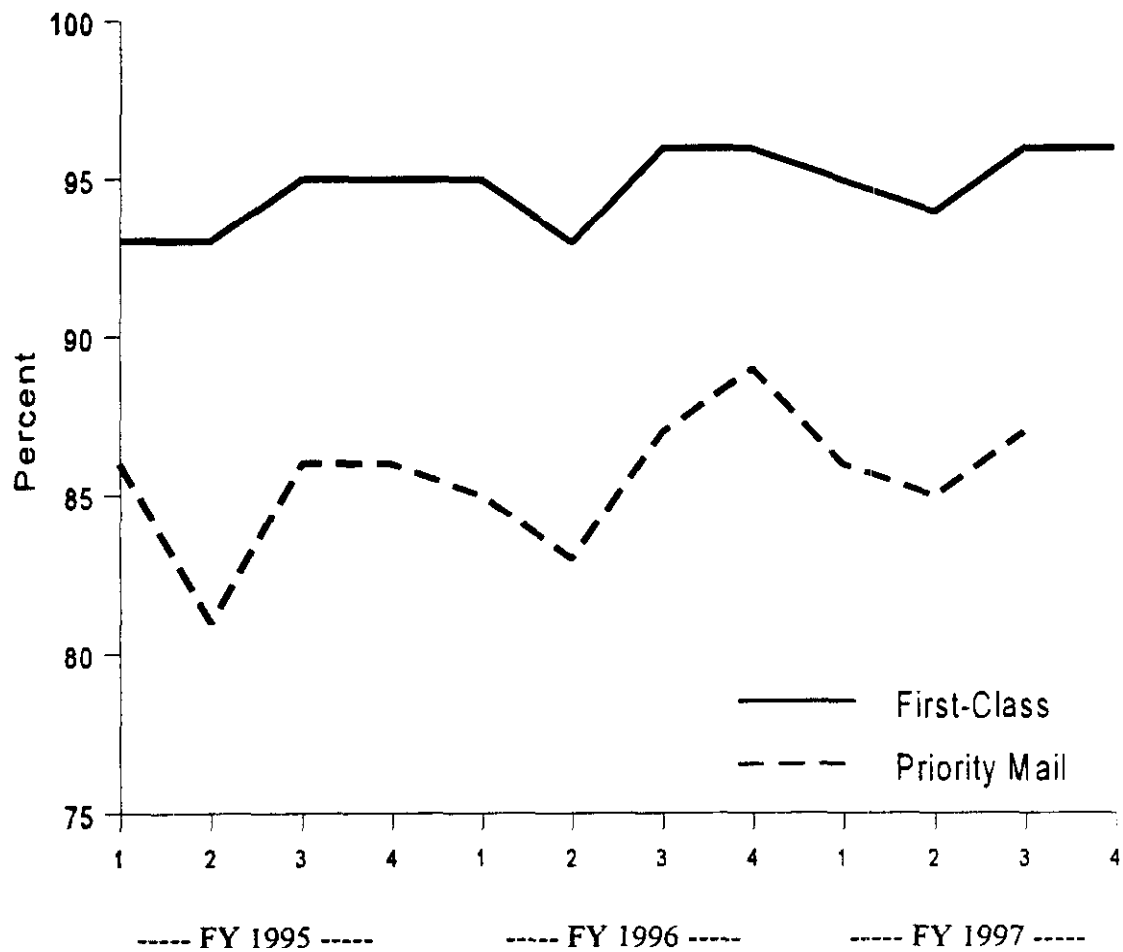
11 To sum up this review of the only available comparable performance
12 data, no matter how one examines the issue, performance of Priority Mail
13 has been less consistent and reliable than First-Class Mail.

14 **Unidentified Priority Mail.** Pieces that pay full Priority Mail rates
15 but are otherwise unidentified as Priority Mail are likely to be handled as
16 First-Class Mail. In FY 1996, 63 percent of Priority Mail was identified and
17 37 percent was unidentified; in FY 1997, the percentages were 67 and 33.⁶⁶
18 Thus, a large portion of Priority Mail still remains unidentified through the
19 system and is handled as heavy-weight First-Class Mail. Fully one-third of
20 all Priority Mail is simply handled as First-Class Mail. For this one-third of

⁶⁶ Response of witness Moden to APMU/USPS-T33-13(d) (Tr. 11/5640).

1 Priority Mail, absolutely no difference exists in handling between Priority
2 Mail and First-Class Mail; hence, one can hardly say that Priority Mail
3 achieves greater priority in processing and performance.

4 Figure 1
5 ODIS Data Comparing Performance of
6 First-Class and Priority Mail with an
7 Overnight Delivery Standard
8 1995-1997



11 Source: Table 7.

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Table 7

Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1995 - FY 1997

		Overnight Standard		Two-Day Standard		Three-Day Standard	
		First- Class Mail	Priority Mail	First- Class Mail	Priority Mail	First- Class Mail	Priority Mail
Year	Qtr	-----	-----	-----	-----	-----	-----
1995	1	93	86	87	78	86	82
	2	93	81	83	72	80	67
	3	95	86	88	80	88	84
	4	95	86	88	80	88	84
1996	1	95	85	88	80	89	82
	2	93	83	81	67	76	71
	3	96	87	89	79	88	79
	4	96	89	88	82	87	82
1997	1	95	86	86	78	86	79
	2	94	85	80	65	74	66
	3	96	87	87	77	86	79
	4	96		88		86	
Sum		1,137	941	1,033	838	1,014	855
Mean		94.8	85.6	86.1	76.2	84.5	77.7
Failure Rate		5.2	14.4	13.9	23.8	15.5	22.3

Sources: First-Class data from ODIS Quarterly Statistics Report.
Priority Mail data from response of witness Moden to
DMA/USPS-T4-31b (Tr. 11/5721).

1 **The New PMPC Network Will Likely Degrade**
2 **Delivery Performance, at Least During the Test Year**

3 **PMPC network.** On April 24, 1997, the Postal Service announced a
4 contract with Emery Worldwide Airlines to operate a dedicated Priority Mail
5 Processing Center ("PMPC") network for identified Priority Mail. Phase I of
6 the PMPC network will consist of 10 PMPCs along the Atlantic seaboard.⁶⁷
7 Within this region, **all Priority Mail must be handled** through the
8 PMPCs. Any plans to expand to the rest of the country in later phases are
9 unknown.⁶⁸

10 Upon establishment of the Phase I Priority Mail processing contract,
11 Emery will perform many of the processing and transportation functions
12 previously performed by the Postal Service. At most, with respect to Priority
13 Mail both sent and received within the Phase I service area (*e.g.*, Priority

⁶⁷ Phase I PMPCs will be located in the 10 cities listed below along with
their planned activation dates. Response of witness Sharkey to UPS/USPS-T33-34
(Tr. 4/2030).

Opening During The Interim Year (10/1/96 to 9/30/97):

 Miami (8/30/97)
 Jacksonville (9/13/97)
 Orlando (9/20/97)
 Newark, NJ (9/27/97)

Opening During The Test Year (10/01/97 to 9/30/98):

 Springfield, MA (10/04/97)
 Rochester, NY (01/03/98)
 New York Metro (01/10/98)
 Pittsburgh (01/17/98)
 Boston (01/24/98)
 Philadelphia (01/31/98)

⁶⁸ Response of witness Sharkey to NDMS-USPS-T33-2(b) (Tr. 4/1928).

1 Mail sent from Miami to Boston), the Postal Service's role will be limited to
2 (i) collecting it, (ii) tendering it to Emery at a Sectional Center Facility and
3 then receiving it sorted from Emery, and (iii) delivering it.⁶⁹

4 **Effect on delivery performance.** The goal of the new PMPC
5 network is to provide at least 96.5 percent on-time two-day service for all
6 destinations within what is called the Phase I area. The Postal Service hopes
7 that the level of service given to Priority Mail will "improve significantly."⁷⁰
8 However, "[t]he two-day goal of 96.5 percent is from USPS tender of Priority
9 Mail to the Contractor to the Contractor delivery back to the USPS."⁷¹ If the
10 definition of this "two-day goal" is a 48-hour period, it is difficult to perceive
11 how the Postal Service can achieve a high percentage of two-day end-to-end
12 delivery when the PMPC Contractor itself has a two-day turnaround
13 time. Mail is not tendered by the contractor to the Postal Service at
14 Destination Delivery Units; the Postal Service receives the mail at Emery
15 facilities. Within the PMPC Phase I area, delivery within overnight areas
16 could well deteriorate to two days, with end-to-end performance elsewhere
17 deteriorating to three days or longer.

18 In addition, within the eastern seaboard Phase I network, Priority
19 Mail users who currently enter their plant-loads at the nearest Airport Mail

⁶⁹ Response of witness Sharkey to UPS/USPS-T33-1 (Tr. 4/1979).

⁷⁰ Response of witness Sharkey to NDMS/USPS-T33-33 (Tr. 4/1977).

⁷¹ Response of witness Sharkey to APMU/USPS-T33-3 (Tr. 4/1929).

1 Center (AMC) will no longer be able to do so. Instead, their Priority Mail
2 must now be delivered to a postal facility, which in turn will "facilitate plant
3 loads to the PMPC where the mail will be processed, or to the nearest plant
4 served by the PMPC."⁷² Only after processing through the PMPC will this
5 mail be transported to an AMC. This will have a substantially adverse effect
6 on Priority Mail dropshippers.

7 **Added cost.** Implementation of the PMPC network adds significantly
8 to the cost projections for Priority Mail during Test Year.⁷³ Witness
9 Patelunas states that all costs of Phase I implementation are fully volume
10 variable in the Test Year.⁷⁴ Costs of the PMPC network are discussed in
11 more detail in Section VIII, *infra*.

12 **Conclusion.** Priority Mail is being charged with the entire Phase I
13 cost for the PMPC network during the Test Year, while whatever value the
14 PMPCs may have in ultimate improvement of delivery service, if any, will
15 certainly not materialize until some time after Test Year. In fact, during the
16 Test Year, implementation of Phase I seems more likely to degrade delivery

⁷² Response of witness Sharkey to NDMS/USPS-T33-27 (Tr. 4/1971).

⁷³ Witness Patelunas includes an additional \$100 million for air transport plus an additional \$100 million for surface transportation on account of the PMPC contract. The total change in Priority Mail Air Transportation costs from the base year to the test year is 31.4 percent, while Priority Mail Highway Transportation cost increases an astonishing 104.4 percent, most as a result of Priority Mail Redesign. Response of witness Patelunas to NDMS/USPS-T15-1 (Tr. 13/7235).

⁷⁴ Response of witness Patelunas to UPS/USPS-T33-36 (Tr. 13/7293).

1 performance of Priority Mail than improve it. Thus, during Phase I
2 implementation, Priority Mail seemingly is being doubly-penalized —
3 through higher costs and lower delivery performance.

4 *The network of dedicated PMPC facilities is an innovative attempt to*
5 *improve performance. At the same time, however, it is totally unproven, and*
6 *it could turn out to be a mistake with grave consequences. Under no*
7 *circumstance, therefore, should the new limited PMPC network be used as an*
8 *excuse to increase the coverage on Priority Mail at this early juncture.*

9 **Lack of Customer-Desired Features**

10 **Delivery confirmation.** The Postal Service proposes to implement
11 delivery confirmation service as an optional service. For large Priority Mail
12 users who access the information on-line, delivery confirmation would be
13 free. For others, the proposed fee is \$0.35. Although delivery confirmation is
14 an important step in the right direction, it definitely falls short of competitive
15 offerings. Such confirmation will not provide a service comparable to
16 competitors' track-and-trace programs, which allow on-line tracing of parcels
17 and instant confirmation, including recipient's signature. The Postal
18 Service's delivery confirmation program, which has yet to be implemented, is
19 inferior because it:

- 20 • has no signature;
- 21 • has no track-and-trace capability; and

1 • is an optional, not automatic, feature.

2 **Other competitive services lacking.** Priority Mail also lacks a
3 number of other competitive features that are currently offered by the
4 competition to satisfy customer requirements. These include features such
5 as:

- 6 • inclusion of minimum insurance in the basic fee;
- 7 • consolidated billing and payment options;
- 8 • reliable scheduled pick-up services;
- 9 • volume discounts and negotiated prices;
- 10 • a variety of delivery/pricing schedules broader than those
11 offered by the Postal Service; and
- 12 • guaranteed delivery days/times.⁷⁵

13 Within the expedited delivery market, it is evident that Priority Mail
14 suffers in comparison to the competition in terms of services offered and
15 pricing flexibility. Until Priority Mail becomes more competitive in these
16 respects, it should not be saddled with too high a coverage.

17 **Declining Market Share**

18 According to witness Sharkey, "Priority Mail competes in the two-day
19 document and package market. This market is competitive, as indicated by
20 ubiquitous, aggressive and creative advertising of two-day product offerings

⁷⁵ Response of witness Sharkey to NDMS/USPS-T33-25 (Tr. 4/1968).

1 among competitors."⁷⁶ Witness Sharkey is quite correct. Moreover, as
2 discussed below, in many respects Priority Mail does not compete very well.

3 In Docket No. R90-1, record evidence showed that Priority Mail had a
4 **declining share of an expanding market.**⁷⁷ Four years later, in Docket No.
5 R94-1, Priority Mail's market share had continued to decline while the
6 market continued to expand.⁷⁸ Now, three years later, and fully seven years
7 since Docket R90-1, Priority Mail's market share **has declined still further**
8 **while the market expanded further.**⁷⁹ Priority Mail's overall market
9 share reached 62.3 percent in CY 1995/96.⁸⁰ A continuing decline in market
10 share is definitely not a healthy sign. As the Commission noted in Docket
11 No. R94-1:

12 [Priority Mail's] share by volume of the second-day package
13 market has declined from 76 percent in 1990 to 72 percent in
14 1993. (Tr. 7A/3100). This decline is a sign of potential market
15 deterioration and supports a below systemwide average rate
16 increase. [*Op. & Rec. Dec.*, Docket No. R94-1, p. V-36.]

17 Priority Mail volume growth appears robust only because of strong growth in
18 the overall market for expedited delivery.

⁷⁶ USPS-T-33, p. 18.

⁷⁷ Docket No. R90-1, USPS-T-18, p. 123.

⁷⁸ Docket No. R94-1, USPS-T-11, p. 94.

⁷⁹ Response of witness Sharkey to NDMS/USPS-T33-25 (Tr. 4/1968).

⁸⁰ *Id.* From 1995 to 1996, the growth of Priority Mail exceeded that of its competitors for the first time in at least five years. It remains to be seen whether this is a reversal of the long-term trend, or just a temporary aberration.

1

2 **Disparity Between Lower and Higher Weights**

3 In the first three quarters of 1993, Priority Mail's market share of
4 volume (pieces) and revenues were 72.2 and 44.0 percent, respectively. The
5 wide disparity between volumes and revenues was an indication that the
6 *rates in effect in 1993 caused Priority Mail's share of heavier-weight pieces to*
7 *range from small to negligible.*⁸¹ Priority Mail revenues, as a percent of
8 overall market share, are still estimated at approximately 44 percent,⁸² and
9 Priority Mail's share of heavier-weight pieces still appears to be negligible.
10 As indicated previously (Table 2), the annual rate of growth for the volume of
11 *pieces that weigh between 5 - 70 pounds was substantially below that of*
12 *pieces weighing less than 5 pounds (4.3 percent versus 12.6 percent).*

13 **High Own-price Elasticity**

14 Reflecting the highly competitive market conditions for expedited
15 delivery services, Priority Mail's own-price elasticity is -0.77, and is
16 statistically significant.⁸³ Only Express Mail's elasticity, at -1.53, is higher.⁸⁴

⁸¹ Docket No. R94-1, N-DP/USPS-T11-26 (Tr. 7A/3100).

⁸² Response of witness Sharkey to NDMS/USPS-T33-30, Table 2 (Tr.
4/1975).

⁸³ USPS-T-8, p. 18.

⁸⁴ *Id.*, p. 35.

1 According to witness O'Hara, a high own-price elasticity indicates low value
2 of service.⁸⁵ This high own-price elasticity, in conjunction with the
3 competitive market situation, poor delivery performance, lack of customer-
4 desired features, and declining market share, points toward a reduced
5 coverage and a rate increase that is lower than average, most especially for
6 heavier, zone-rated Priority Mail.

⁸⁵ Response of witness O'Hara to APMU/USPS-T30-3 (Tr. 2/119).

1 **VIII. COST CONSIDERATIONS**

2 In this docket the proposed coverage for Priority Mail was initially
3 computed as 198 percent. Subsequently, however, it was revised to 192
4 percent, based on certain cost revisions. For reasons explained here, volume-
5 variable costs attributed to Priority Mail appear to be overstated. Should
6 this indeed be the case, costs during FY 1998 will turn out to be lower, and
7 the coverage of volume-variable costs will be higher than projected.
8 Correcting for this overstatement of costs would increase the indicated
9 coverage.

10 **PMPC Costs**

11 As discussed in Section VII of this testimony, during the interim year
12 of this case (FY 1997) the Postal Service signed an innovative contract with
13 Emery to sort and transport all Priority Mail in the Northeast and Florida.
14 One obvious implication is that during the Base Year (FY 1996), the Postal
15 Service had absolutely no costs or experience whatsoever under this contract,
16 hence there were no Base Year costs to “roll forward.”

17 For Interim Year 1997 (when four of the 10 Priority Mail Processing
18 Centers had only operated for between three and 30 days) the cost of the
19 PMPCs was \$36.390 million — identified as “Priority Mail redesign” in Cost

1 Segment 16, Component 187.⁸⁶ The cost of the PMPCs in **Test Year 1998**,
2 **\$265 million**, are contained in three cost components: purchased air
3 transportation (Segment 14, Component 142 — \$100 million);⁸⁷ purchased
4 highway transportation (Segment 14, Component 143 — \$100 million); and
5 supplies and services (Segment 16, Component 187 — \$65.423 million).⁸⁸

6 Substantial offsetting transportation and work hour cost reductions
7 should be expected, since *Emery* will take over many functions previously
8 performed by the Postal Service in the Phase I service area. However, the
9 Postal Service identifies only two cost reductions due to Priority Mail
10 redesign — approximately \$82 million saved in contract **air transportation**
11 costs and approximately \$45 million saved in **Clerk and Mailhandler**
12 **work hours**, for a total of \$127 million.⁸⁹

⁸⁶ LR-H-10, Exhibit A, p. 4.

⁸⁷ LR-H-10, Exhibit B. Originally, the costs for highway transportation (14/143) and supplies and services (16/187) were attributed entirely to Priority Mail, while the cost for air transportation under the contract was attributed to several classes and subclasses along with the rest of purchased air transportation costs. In response to an error pointed out through UPS discovery, witness Patelunas revised his testimony so that PMPC air transportation costs were distributed solely to Priority Mail, increasing the attributable costs of Priority Mail by \$70 million, and reducing cost coverage for Priority Mail from 198 to 192 percent. *See* second revised response of witness Patelunas to UPS/USPS-T33-36 (9/19/97) (Tr. 13/7293).

⁸⁸ Witness Tayman explained that these unusually round numbers for air and highway transportation costs were estimates given to him by the Priority Mail Redesign program manager between February and April 1997, before the contract with *Emery* was even awarded (on April 24, 1997) (Tr. 9/4534).

⁸⁹ LR-H-10, Exhibit C.

1 **Surface Transportation Cost Reductions**

2 The Postal Service has attributed significant surface transportation
3 costs for Priority Mail handled by Emery within the Northeast and Florida.
4 However, witness Patelunas does not identify any cost reductions whatsoever
5 in highway transportation due to Priority Mail Redesign in Test Year 1998
6 (Segment 14, Component 143). This is surprising, as approximately 30
7 percent of Priority Mail volume is anticipated to originate and/or destinate
8 within the Phase I area and therefore be processed and transported by
9 Emery before the middle of Test Year 1998.

10 During cross-examination, witnesses Tayman and Patelunas testified
11 that the Postal Service would realize no cost savings for highway
12 transportation because the truck contracts are fixed over a multi-year period,
13 and reduced loads in the Test Year do not translate into cost savings for the
14 Postal Service. Witness Tayman explained that, "just because you take a
15 certain amount of mail volume off of [trucks] that doesn't mean that the cost
16 of that transportation goes down."⁹⁰ This may be true in the test year, but it
17 would not be true in subsequent years.

18 Under the PMPC contract, Emery will operate a surface transportation
19 network dedicated to Priority Mail. The goal is to use surface transportation
20 to move Priority Mail over longer distances. Within the Northeast and

⁹⁰ Tr. 9/4531, ll. 16-18.

1 Florida, virtually all Priority Mail will be removed from normal Postal
2 Service trucks (subject to sampling under TRACS) as well as from short-haul
3 commercial air transport. Even if the total amount of the Postal Service's
4 normal highway transportation cost remains the same in the test year,
5 removing substantial volume of Priority Mail from trucks subject to TRACS
6 sampling should reduce the proportion of those costs attributed to Priority
7 Mail in the test year (*i.e.*, the distribution key developed by TRACS should
8 reflect the reduction in the volume of Priority Mail), with the attribution to
9 other mail carried on those trucks increased by a corresponding amount.
10 Nevertheless, witness Patelunas stated that he made no adjustments to the
11 distribution of highway costs to account for any change in volume caused by
12 the contract.⁹¹ This means that the Postal Service has overstated total
13 Priority Mail highway transportation costs by an amount which could range
14 as high as 30 percent of highway transportation costs, or \$51 million.

15 **Mail Processing Personnel Cost Reductions**

16 Since much of the processing of Priority Mail in the Phase I service
17 area will be performed by Emery employees rather than Postal Service
18 workers, the Priority Mail processing contract should cause substantial cost

⁹¹ Tr. 13/7322, ll. 13-17. The Postal Service roll-forward procedure apparently has no way to project changes in the distribution key that result from a sea change event such as the PMPC contract.

1 **reductions in personnel and related indirect costs.** Based on 539,000
2 work hours in savings for Clerks and 1,257,000 work hours in savings for
3 Mailhandlers, the Postal Service identifies a reduction of approximately \$45
4 million in mail processing direct costs due to the contract. The Postal
5 Service, however, **does not identify any reduction in the indirect costs**
6 of mail processing (such as supervisor salaries, equipment maintenance
7 personnel, benefits and unemployment compensation, or building rent and
8 utilities). Based on Priority Mail's test year piggyback ratio of 1.559, mail
9 processing cost reductions due to the contract are understated by
10 approximately \$25 million.⁹²

11

12 **Eagle Network Costs**

13 In this docket, the Postal Service has not only distinguished
14 incremental costs conceptually, it has also estimated them.⁹³ Incremental
15 costs are, of course, costs that would no longer exist if a particular class of
16 mail should cease to exist. This exercise cannot escape a fact that has long
17 been obvious — namely, that the Eagle Network exists solely to achieve
18 overnight delivery of Express Mail.⁹⁴ In recognition thereof, the Postal
19 Service proposes to release Priority Mail from the cost burden imposed by the

⁹² LR-H-77, p. 41.

⁹³ USPS-T-3.

⁹⁴ See Docket No. R94-1, N/DP-T-1, pp. 27-31.

1 **Eagle Network.** I concur fully, and would strongly advocate that the
2 **Commission adopt the treatment of Eagle Network costs proposed by the**
3 **Postal Service.**

4 **Conclusion**

5 **The instances of overstatement of Test Year costs by the Postal Service**
6 **described above offset substantially the \$70 million reduction in Priority Mail**
7 **costs due to the erroneous distribution of surface transportation costs**
8 **incurred by the PMPC network. The coverage for Priority Mail under the**
9 **Postal Service's proposal thus appears to be closer to the 198 percent level**
10 **originally reported.**

1 **IX. CONCLUSIONS AND RECOMMENDATIONS**

2 Priority Mail is a good, highly profitable product for the Postal Service.
3 Priority Mail produces more revenue than almost any other Postal Service
4 product, and has historically made a much larger-than-average contribution
5 to institutional costs. With proper care and nurturing, Priority Mail has the
6 potential for even greater success.

7 Without badly needed changes, however, Priority Mail may not
8 continue to be a success story. Service performance is lagging, and Priority
9 Mail lacks many of the features its competitors offer. And while the effect is
10 masked by a robust overall market for expedited delivery, Priority Mail's
11 share of total revenues in the market, especially in the highly profitable 6- to
12 70-pound weight range, is in chronic decline. There, the Postal Service has
13 virtually priced itself out of the transportation and delivery business for
14 Priority Mail by marking up distance-related costs to subsidize other, zero- or
15 near-zero-margin products. Continuing to sacrifice market share to extract
16 extra contributions to institutional costs makes Priority Mail an easy target
17 for private sector competitors. History has shown that the Postal Service has
18 great difficulty regaining market share, once surrendered.

19 To prevent irreversible losses, two areas must improve. First,
20 competitive rates across the entire weight/zone spectrum must be re-
21 established. Second, the Postal Service must significantly improve Priority

1 **Mail's quality of service and performance. With the Commission's help,**
2 **Priority Mail will realize its potential to be an even bigger and more**
3 **profitable product for the Postal Service. This outcome would clearly be a**
4 **win-win situation for both mailers and the Postal Service.**

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Appendix A

**VOLUME AND REVENUE EFFECTS FROM INCREASING
THE MAXIMUM WEIGHT OF FIRST-CLASS MAIL**

This appendix contains the data cited in Section III in support of the proposal to increase the maximum weight of First-Class Mail. It contains the following three tables:

<u>Table</u>
A-1 Priority and First-Class Mail Rates and Volumes By Ounce Increment, 8 to 11 ounces
A-2 Projected Priority Mail Volume for 12 and 13 Ounce Pieces, Postal Service Proposed Rates
A-3 Projected Priority Mail Volume for 12 and 13 Ounce Pieces, NDMS Proposed Rates

Table A-1: Current Rates and Volumes

At the present time, the maximum weight of First-Class Mail is 11 ounces. Heavier pieces are supposed to be entered as Priority Mail. For pieces that weigh 8 to 11 ounces, the existing rates and 1996 volumes of both Priority Mail and First-Class Mail are shown in Table A-1. The difference between the minimum Priority Mail rate (\$3.00) and the rate for First-Class Mail is shown in column 3. The share (percentage) sent as Priority Mail, by ounce increment, is shown in column 9.

1 **Table A-2: Postal Service Proposed Rates**

2 The minimum Priority Mail rate proposed by the Postal Service (\$3.20)
3 is shown in Table A-2, column 1. Applying the Postal Service's proposed
4 rates for First-Class Mail to pieces weighing 12 and 13 ounces results in the
5 rates shown in column 2. The difference between the minimum rate
6 proposed for Priority Mail and the extended First-Class rate is shown in
7 column 3. Column 4 gives Priority Mail volume in FY 1996, by ounce
8 increment, for 12 and 13 ounces.⁹⁵ These volumes are incremented by the
9 ratio of total TYBR volume to total Base Year volume (20.00 percent)⁹⁶ to
10 obtain the TYBR volumes shown in column 5. The volume likely to be sent
11 as Priority Mail if the proposed weight increase for First-Class Mail is not
12 adopted, using the alternative procedure discussed in the text, is shown in
13 column 6. The volumes of Priority Mail and First-Class Mail which are
14 projected after migration, assuming the proposal to increase First-Class Mail
15 to 13 ounces is adopted, are shown in columns 7 and 8.

16 For 12-ounce pieces, the difference between the minimum Priority
17 Mail rate and the First-Class Mail rate is 34 cents. In the Test Year, Priority

⁹⁵ No data are available with respect to 12-ounce pieces inadvertently entered as First-Class Mail.

⁹⁶ 1996 total volume of 937,272,598 (USPS-T33K) to TYBR total volume of 1,123,760,000 (USPS-T33L)= 20 percent increase. Witness Musgrave, USPS-T-8, revised his forecast of TYBR volume to 1,131,156,000, but corresponding revisions were not made to witness Sharkey's testimony. To maintain comparability with witness Sharkey's other data, his unrevised TYBR volume has been used.

1 Mail is projected to have a slightly higher share (28 percent) of 12-ounce
2 volume than it currently has of 11-ounce volume (see Table A-1), where the
3 rate differential is 38 cents. The share of 13-ounce pieces likely to be entered
4 as Priority Mail is considerably higher (77 percent). Both shares were
5 obtained by linear extrapolation of the percentage in column 7 of Table 1
6 according to the rate differential in column 3.

7 To sum up, the total TYAR volume of 12- and 13-ounce Priority Mail
8 without any change in the maximum weight of First-Class Mail is projected
9 to be 156,748,000 using the alternative forecast procedure described in
10 Section IV of the testimony. If the maximum weight for First-Class Mail is
11 increased to 13 ounces, then at the Postal Service's Proposed Rates,
12 77,665,000 pieces are projected to migrate to First-Class Mail, and the
13 Priority Mail volume weighing 12 and 13 ounces is projected at 79,082,000.

14 **Table A-3: NDMS Proposed Rates**

15 Table A-3 is similar to Table A-2, except that it uses the slightly higher
16 minimum rate for Priority Mail used in the NDMS alternate rate proposal.
17 With a minimum rate of \$3.30 (instead of \$3.20) the volume of Priority Mail
18 weighing 12 and 13 ounces declines from 79,082,000 to 53,844,000 pieces,
19 while 100,563,000 pieces migrate to First-Class.

Table A-1

**Priority and First-Class Mail Rates and Volumes
By Ounce Increment, 8 to 11 Ounces
1996**

Weight (oz.)	Priority Mail Rate (1)	First- Class Rate (2)	Differ- ence (3)	1996 Priority Mail Volume [1] (4)	1996 First- Class Volume [2] (5)	Total Volume (6)	Priority Mail Share (7)
8	3.00	1.93	1.07	9,592	167,416	177,008	5.42%
9	3.00	2.16	0.84	10,741	132,095	142,836	7.52%
10	3.00	2.39	0.61	12,192	97,151	109,343	11.15%
11	3.00	2.62	0.38	17,541	74,310	91,851	19.10%

Sources: [1] Response of witness Sharkey to NDMS/USPS-T33-7 (Tr. 4/1953).
[2] Attachment to NDMS/USPS-T32-47 (data for single piece FCM only).
(Tr. 19B/8972)

Table A-2

Projected Priority Mail Volume
Postal Service Proposed Rates for 12 and 13 Ounce Pieces
TYAR

Weight (oz.)	Priority Mail Rate (1)	First- Class Rate (2)	Differ- ence (3)	1996 Priority Mail Volume [1 (4)	TYBR Priority Mail Volume (5)	TYAR Priority Mail Volume Before Change *	TYAR Priority Mail Volume After Change *	Migration to First- Class (8)	Priority Mail Share (9)
12	3.20	2.86	0.34	71,844	86,138	83,640	23,096	60,544	27.61%
13	3.20	3.09	0.11	62,797	75,291	73,108	55,986	17,121	76.58%
					161,429	156,748	79,082	77,665	
Reduction in Priority Mail Revenues (000)						248,529			
Increase in First-Class Revenues (000)						226,061			
Net Decrease in Postal Service Revenues (000)						22,468			

* = Using Alternative Procedure

Sources: [1] Response of witness Sharkey to NDMS/USPS-T33-7 (Tr. 4/1953).
[2] TYAR volume = TYBR volume x percentage rate change
x effective own-price elasticity of -0.435019

Table A-3

**Projected Priority Mail Volume
NDMS Proposed Rates for 12 and 13 Ounce Pieces
TYAR**

Weight (oz.)	Priority Mail Rate (1)	First- Class Rate (2)	Differ- ence (3)	1996 Priority Mail Volume [1 (4)	TYBR Priority Mail Volume (5)	TYAR Priority Mail Volume Before Change * (6)	TYAR Priority Mail Volume After Change * (7)	Migration to First- Class (8)	Priority Mail Share (9)
12	3.30	2.86	0.44	71,844	86,138	82,391	14,026	68,365	17.02%
13	3.30	3.09	0.21	62,797	75,291	72,016	39,818	32,198	55.29%
					161,429	154,407	53,844	100,563	
Reduction in Priority Mail Revenues (000)						331,856			
Increase in First-Class Revenues (000)						295,014			
Net Decrease in Postal Service Revenues (000)						36,842			

* = Using Alternative Procedure

Sources: [1] Response of witness Sharkey to NDMS/USPS-T33-7 (Tr. 4/1953).
[2] TYAR volume = TYBR volume * percentage rate change
* effective own-price elasticity of -0.435019

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Appendix B

**PROJECTING TYAR PRIORITY MAIL VOLUME AND REVENUE
BY APPLYING OWN-PRICE ELASTICITY
TO THE RATE PROPOSED FOR EACH CELL**

An alternative procedure for projecting Priority Mail volume and revenue After Rates is described in Section IV of the testimony. This appendix applies the alternative procedure to the Postal Service TYBR volumes and proposed rates in USPS-T-33. It consists of seven tables, in Excel Spreadsheets, as follows:

Table

- | | |
|-----|---|
| B-1 | Non-presorted Priority Mail Docket No. R94-1 Remand Rates |
| B-2 | Postal Service Priority Mail Proposed Rates |
| B-3 | Percent Change in Non-presorted Priority Mail Docket No. R94-1 Remand Rates to Postal Service Proposed Rates |
| B-4 | Priority Mail TYBR Volume |
| B-5 | Total Priority Mail Postal Service Proposed Rate TYAR Volumes Using Alternate Projection Procedure |
| B-6 | Total Priority Mail Postal Service Proposed Rate TYAR Revenues Using Alternate Projection Procedure |
| B-7 | Total Priority Mail Postal Service Proposed Rate TYAR Costs (with Contingency) Using Alternate Projection Procedure |

1 **Tables B-1 and B-2: Rates**

2 **Current Rates** (Non-presorted Priority Mail Docket No. R94-1

3 Remand Rates) are set out in Table B-1. Table B-2 shows the Postal Service

4 **Proposed Rates** (USPS-T-33, Table 9, p. 32).

5 **Table B-3: Percent Change in Rates**

6 Table B-3 computes for each rate cell the proposed **percentage**

7 **change**, which varies from a low of -0.30 percent (30 pound rate for Zone

8 L,1,2&3) to a high of +16.00 percent (70 pound rate for Zone 7).

9 **Table B-4: TYBR Volume**

10 TYBR volume for Priority Mail is given as 1,123,760,000 pieces, shown

11 in Table B-4.⁹⁷ Using the standard procedure, this volume is distributed to

12 individual rate cells in proportion to the distribution of Base Year volume

13 (USPS-33L).

⁹⁷ Witness Musgrave revised the TYBR volume forecast to 1,131,156 million pieces (USPS-T-8, p. 8, revised 8/18/97), but witness Sharkey did not revise his testimony to incorporate this minor change.

1 **Table B-5: TYAR Volume**

2 **Own price elasticity and lags.** Witness Musgrave estimates the
3 long-run own-price elasticity of Priority Mail to be -0.770.⁹⁸ In the Test Year,
4 however, the own-price elasticity has a lagged effect on volume. That is,
5 Priority Mail rates increase, on average, by 7.35 percent, and the TYAR
6 volume decreases by 3.20 percent. The result is what I have termed here as
7 an “effective TY own-price elasticity” of -0.435019.

8 **Projected volume.** Using the alternative procedure proposed in this
9 testimony, in Table B-5, the TYBR volume in each cell is multiplied by (i)
10 the own-price elasticity provided by witness Musgrave (-0.77) less a time lag
11 factor, which provides an effective TY own-price elasticity of -0.435019,
12 and (ii) the percentage rate increase applied to each individual rate proposed
13 by the Postal Service using the formula:

14
$$\text{TYAR } V_{ij} = \text{TYBR } V_{ij} (1 - 0.435019 \cdot R_{ij})$$

15 where

16 V = Volume

17 R = percentage change in rate

18 _i = weight

19 _j = zone

⁹⁸ USPS-T-8, p. 18.

1 Results of this alternative procedure are summarized in Table 3 in the
2 text. Using the alternative procedure proposed here, the total volume which
3 can be expected from the Postal Service's proposed rates is 1,088,680,044,
4 rather than the 1,087,829,000 projected by witness Sharkey. That is, the
5 alternative procedure projects **851,044 more pieces** of Priority Mail than
6 the standard procedure used by witness Sharkey. Moreover, the distribution
7 as between rate cells also differs, reflecting the varying percentage change in
8 rates among the different cells.

9 **Table B-6: TYAR Revenues**

10 The revised volume times the proposed rates gives a projected total
11 revenue from Priority Mail, without delivery confirmation and other fees, of
12 \$4,133,916,122, as shown in Table B-6. This is \$469,869 less than witness
13 Sharkey's projected revenue of \$4,134,385,991.⁹⁹ A summary comparison of
14 the standard and alternative procedures is as follows:

⁹⁹ USPS-T-33, Table 6 (Revised 10/6/97).

		TYAR Volume (000)	TYAR Revenue (000)
1	Standard Procedure	1,087,829	\$ 4,134,386
2	Alternative Procedure	<u>1,088,680</u>	<u>4,133,916</u>
3	Difference	851	(\$ 470)

4 Witness Sharkey projects an average revenue per piece of \$3.80. The
5 small increase of 851,000 parcels, and reduced revenues of \$470,000, result
6 in the same average revenue of \$3.80 (rounded).

7 **Table B-7: TYAR Costs**

8 Table B-7 uses the alternate procedure to project Priority Mail TYAR
9 costs, by multiplying the TYAR unit volumes obtained in Table B-5 times the
10 Postal Service proposed costs with contingency in Table C-2. The alternate
11 total projected TYAR costs with contingency, when deducted from TYAR
12 revenues projected using the alternate procedure (Table B-6), results in
13 alternate projected Priority Mail contribution to institutional costs of
14 \$1,981,829,588 instead of witness Sharkey's projected contribution of
15 \$1,982,084,738.

Table B-1

**Nonpresorted Priority Mail
R94-1 Remand Rates**

Weight [Pounds]	Zone 1, 2 & 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
1	3.00	3.00	3.00	3.00	3.00	3.00
2	3.00	3.00	3.00	3.00	3.00	3.00
3	4.00	4.00	4.00	4.00	4.00	4.00
4	5.00	5.00	5.00	5.00	5.00	5.00
5	6.00	6.00	6.00	6.00	6.00	6.00
6	6.35	6.90	7.10	7.20	7.80	8.00
7	6.65	7.50	8.10	8.40	9.20	9.80
8	6.95	8.00	9.00	9.50	10.40	11.60
9	7.40	8.60	9.80	10.60	11.30	13.00
10	7.80	9.30	10.55	11.40	12.15	14.05
11	8.25	9.90	11.35	12.20	13.00	15.10
12	8.70	10.55	12.10	13.00	13.90	16.15
13	9.10	11.20	12.80	13.80	14.75	17.20
14	9.55	11.85	13.60	14.55	15.60	18.25
15	10.00	12.45	14.35	15.35	16.50	19.30
16	10.40	13.15	15.05	16.15	17.35	20.35
17	10.85	13.75	15.80	16.95	18.20	21.40
18	11.30	14.35	16.50	17.75	19.05	22.45
19	11.70	15.05	17.25	18.55	19.95	23.50
20	12.15	15.65	17.95	19.30	20.80	24.55
21	12.60	16.35	18.70	20.10	21.65	25.60
22	13.00	16.95	19.40	20.90	22.55	26.65
23	13.45	17.55	20.15	21.70	23.40	27.70
24	13.85	18.25	20.85	22.50	24.25	28.75
25	14.30	18.85	21.60	23.25	25.15	29.85
26	14.75	19.50	22.30	24.05	26.00	30.90
27	15.15	20.15	23.00	24.85	26.85	31.95
28	15.60	20.80	23.75	25.65	27.70	33.00
29	16.05	21.40	24.45	26.45	28.60	34.05
30	16.45	22.10	25.20	27.20	29.45	35.10
31	16.90	22.70	25.90	28.00	30.30	36.15
32	17.35	23.40	26.65	28.80	31.20	37.20
33	17.75	24.00	27.35	29.60	32.05	38.25
34	18.20	24.60	28.10	30.40	32.90	39.30
35	18.60	25.30	28.80	31.20	33.75	40.35
36	19.05	25.90	29.55	31.95	34.65	41.40
37	19.50	26.55	30.25	32.75	35.50	42.45
38	19.90	27.20	31.00	33.55	36.35	43.50
39	20.35	27.80	31.70	34.35	37.25	44.55
40	20.80	28.45	32.40	35.15	38.10	45.60
41	21.20	29.10	33.15	35.90	38.95	46.65
42	21.65	29.75	33.85	36.70	39.85	47.70
43	22.10	30.35	34.60	37.50	40.70	48.80
44	22.50	31.05	35.30	38.30	41.55	49.85
45	22.95	31.65	36.05	39.10	42.40	50.90
46	23.35	32.35	36.75	39.85	43.30	51.95
47	23.80	32.95	37.50	40.65	44.15	53.00
48	24.25	33.55	38.20	41.45	45.00	54.05
49	24.65	34.25	38.95	42.25	45.90	55.10
50	25.10	34.85	39.65	43.05	46.75	56.15
51	25.55	35.50	40.35	43.85	47.60	57.20
52	25.95	36.15	41.10	44.60	48.50	58.25
53	26.40	36.80	41.80	45.40	49.35	59.30
54	26.85	37.40	42.55	46.20	50.20	60.35
55	27.25	38.05	43.25	47.00	51.05	61.40
56	27.70	38.70	44.00	47.80	51.95	62.45
57	28.10	39.35	44.70	48.55	52.80	63.50
58	28.55	40.00	45.45	49.35	53.65	64.55
59	29.00	40.60	46.15	50.15	54.55	65.60
60	29.40	41.30	46.90	50.95	55.40	66.65
61	29.85	41.90	47.60	51.75	56.25	67.75
62	30.30	42.50	48.35	52.50	57.10	68.80
63	30.70	43.20	49.05	53.30	58.00	69.85
64	31.15	43.80	49.75	54.10	58.85	70.90
65	31.60	44.45	50.50	54.90	59.70	71.95
66	32.00	45.10	51.20	55.70	60.60	73.00
67	32.45	45.75	51.95	56.50	61.45	74.05
68	32.90	46.35	52.65	57.25	62.30	75.10
69	33.30	47.05	53.40	58.05	63.20	76.15
70	33.75	47.65	54.10	58.85	64.05	77.20

Source: USPS-T-33, Current Rates (Prio 97)

Table B-2

**Postal Service Proposed
Priority Mail Rates**

Weight (Pounds)	Zone 1, 2 & 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20
1	3.20	3.20	3.20	3.20	3.20	3.20
2	3.20	3.20	3.20	3.20	3.20	3.20
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.75	6.90	7.75	7.80	8.25	8.75
7	7.05	7.60	8.60	9.10	9.85	11.15
8	7.35	8.30	9.45	10.05	10.85	12.40
9	7.65	9.00	10.25	11.00	11.90	13.65
10	8.10	9.75	11.10	11.90	12.80	14.85
11	8.55	10.45	11.90	12.85	13.85	16.10
12	9.00	11.15	12.75	13.80	14.85	17.35
13	9.45	11.85	13.60	14.70	15.90	18.60
14	9.90	12.60	14.40	15.65	16.90	19.85
15	10.35	13.30	15.25	16.60	17.95	21.05
16	10.80	14.00	16.10	17.50	18.95	22.30
17	11.25	14.75	16.90	18.45	20.00	23.55
18	11.70	15.45	17.70	19.40	21.00	24.80
19	12.15	16.15	18.50	20.30	22.05	26.05
20	12.55	16.85	19.30	21.25	23.05	27.25
21	12.95	17.60	20.10	22.20	24.10	28.50
22	13.35	18.30	20.90	23.10	25.10	29.75
23	13.75	19.00	21.70	24.05	26.15	31.00
24	14.15	19.75	22.50	25.00	27.15	32.25
25	14.55	20.45	23.30	25.90	28.20	33.45
26	14.95	21.15	24.10	26.85	29.20	34.70
27	15.35	21.85	24.90	27.80	30.25	35.95
28	15.75	22.60	25.70	28.70	31.25	37.20
29	16.15	23.30	26.50	29.65	32.30	38.45
30	16.40	24.00	27.30	30.60	33.30	39.65
31	16.85	24.75	28.10	31.55	34.35	40.90
32	17.30	25.45	28.90	32.45	35.35	42.15
33	17.75	26.15	29.70	33.40	36.40	43.40
34	18.25	26.85	30.50	34.35	37.40	44.65
35	18.70	27.60	31.30	35.25	38.40	45.85
36	19.15	28.30	32.10	36.20	39.45	47.10
37	19.60	29.00	32.90	37.15	40.45	48.35
38	20.05	29.75	33.70	38.05	41.50	49.60
39	20.55	30.45	34.50	39.00	42.50	50.85
40	21.00	31.15	35.30	39.95	43.55	52.10
41	21.45	31.85	36.10	40.85	44.55	53.30
42	21.90	32.60	36.90	41.80	45.60	54.55
43	22.35	33.30	37.70	42.75	46.60	55.80
44	22.85	34.00	38.50	43.65	47.65	57.05
45	23.30	34.75	39.30	44.60	48.65	58.30
46	23.75	35.45	40.10	45.55	49.70	59.50
47	24.20	36.15	40.90	46.45	50.70	60.75
48	24.65	36.85	41.70	47.40	51.75	62.00
49	25.15	37.60	42.50	48.35	52.75	63.25
50	25.60	38.30	43.30	49.25	53.80	64.50
51	26.05	39.00	44.10	50.20	54.80	65.70
52	26.50	39.75	44.90	51.15	55.85	66.95
53	26.95	40.45	45.70	52.05	56.85	68.20
54	27.45	41.15	46.50	53.00	57.90	69.45
55	27.90	41.85	47.30	53.95	58.90	70.70
56	28.35	42.60	48.10	54.85	59.95	71.90
57	28.80	43.30	48.90	55.80	60.95	73.15
58	29.25	44.00	49.70	56.75	62.00	74.40
59	29.75	44.75	50.50	57.65	63.00	75.65
60	30.20	45.45	51.30	58.60	64.05	76.90
61	30.65	46.15	52.10	59.55	65.05	78.10
62	31.10	46.85	52.90	60.45	66.10	79.35
63	31.55	47.60	53.70	61.40	67.10	80.60
64	32.05	48.30	54.50	62.35	68.15	81.85
65	32.50	49.00	55.30	63.25	69.15	83.10
66	32.95	49.75	56.10	64.20	70.20	84.30
67	33.40	50.45	56.90	65.15	71.20	85.55
68	33.85	51.15	57.70	66.05	72.25	86.80
69	34.35	51.85	58.50	67.00	73.25	88.05
70	34.80	52.60	59.30	67.95	74.30	89.30

Source: USPS-T-33, Table 9, p. 32

Table B-3

Priority Mail
Percent Change, Nonpresorted R94-1 Remand Rates
to Postal Service Proposed Rates

Weight (Pounds)	L1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
1	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
2	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
3	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
4	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
6	6.30%	0.00%	9.15%	8.33%	5.77%	9.38%
7	6.02%	1.33%	6.17%	8.33%	7.07%	13.78%
8	5.76%	3.75%	5.00%	5.79%	4.33%	6.90%
9	3.38%	4.65%	4.59%	3.77%	5.31%	5.00%
10	3.85%	4.84%	5.21%	4.39%	5.35%	5.69%
11	3.64%	5.56%	4.85%	5.33%	6.54%	6.62%
12	3.45%	5.69%	5.37%	6.15%	6.83%	7.43%
13	3.85%	5.80%	6.25%	6.52%	7.80%	8.14%
14	3.66%	6.33%	5.88%	7.56%	8.33%	8.77%
15	3.50%	6.83%	6.27%	8.14%	8.79%	9.07%
16	3.85%	6.46%	2.99%	8.36%	9.22%	9.58%
17	3.69%	7.27%	3.16%	8.85%	9.89%	10.05%
18	3.54%	7.67%	3.64%	9.30%	10.24%	10.47%
19	3.85%	7.31%	3.77%	9.43%	10.53%	10.85%
20	3.29%	7.67%	4.18%	10.10%	10.82%	11.00%
21	2.78%	7.65%	0.27%	10.45%	11.32%	11.33%
22	2.69%	7.96%	0.52%	10.53%	11.31%	11.63%
23	2.23%	8.26%	0.50%	10.83%	11.75%	11.91%
24	2.17%	8.22%	0.96%	11.11%	11.96%	12.17%
25	1.75%	8.49%	0.93%	11.40%	12.13%	12.06%
26	1.36%	8.46%	1.12%	11.64%	12.31%	12.30%
27	1.32%	8.44%	1.52%	11.87%	12.66%	12.52%
28	0.96%	8.65%	1.47%	11.89%	12.82%	12.73%
29	0.62%	8.88%	1.84%	12.10%	12.94%	12.92%
30	-0.30%	8.60%	1.79%	12.50%	13.07%	12.96%
31	-0.30%	9.03%	1.93%	12.68%	13.37%	13.14%
32	-0.29%	8.76%	2.06%	12.67%	13.30%	13.31%
33	0.00%	8.96%	2.19%	12.84%	13.57%	13.46%
34	0.27%	9.15%	2.14%	12.99%	13.68%	13.61%
35	0.54%	9.09%	2.43%	12.98%	13.78%	13.63%
36	0.52%	9.27%	2.37%	13.30%	13.85%	13.77%
37	0.51%	9.23%	2.64%	13.44%	13.94%	13.90%
38	0.75%	9.38%	2.58%	13.41%	14.17%	14.02%
39	0.98%	9.53%	2.68%	13.54%	14.09%	14.14%
40	0.96%	9.49%	2.93%	13.66%	14.30%	14.25%
41	1.18%	9.45%	2.87%	13.79%	14.38%	14.26%
42	1.15%	9.58%	2.95%	13.90%	14.43%	14.36%
43	1.13%	9.72%	3.03%	14.00%	14.50%	14.34%
44	1.56%	9.50%	3.12%	13.97%	14.68%	14.44%
45	1.53%	9.79%	3.19%	14.07%	14.74%	14.54%
46	1.71%	9.58%	3.27%	14.30%	14.78%	14.53%
47	1.68%	9.71%	3.20%	14.27%	14.84%	14.62%
48	1.65%	9.84%	3.40%	14.35%	15.00%	14.71%
49	2.03%	9.78%	3.34%	14.44%	14.92%	14.79%
50	1.99%	9.90%	3.40%	14.40%	15.08%	14.87%
51	1.96%	9.86%	3.59%	14.48%	15.13%	14.86%
52	2.12%	9.96%	3.53%	14.69%	15.15%	14.94%
53	2.08%	9.92%	3.71%	14.65%	15.20%	15.01%
54	2.23%	10.03%	3.64%	14.72%	15.34%	15.08%
55	2.39%	9.99%	3.70%	14.79%	15.38%	15.15%
56	2.35%	10.08%	3.75%	14.75%	15.40%	15.13%
57	2.49%	10.04%	3.80%	14.93%	15.44%	15.20%
58	2.45%	10.00%	3.74%	14.99%	15.56%	15.26%
59	2.59%	10.22%	3.90%	14.96%	15.49%	15.32%
60	2.72%	10.05%	3.84%	15.01%	15.61%	15.38%
61	2.68%	10.14%	3.99%	15.07%	15.64%	15.28%
62	2.64%	10.24%	3.93%	15.14%	15.76%	15.33%
63	2.77%	10.19%	3.98%	15.20%	15.69%	15.39%
64	2.89%	10.27%	4.12%	15.25%	15.80%	15.44%
65	2.85%	10.24%	4.06%	15.21%	15.83%	15.50%
66	2.97%	10.31%	4.10%	15.26%	15.84%	15.48%
67	2.93%	10.27%	4.14%	15.31%	15.87%	15.53%
68	2.89%	10.36%	4.18%	15.37%	15.97%	15.58%
69	3.15%	10.20%	4.21%	15.42%	15.90%	15.63%
70	3.11%	10.39%	4.25%	15.46%	16.00%	15.67%

Source: Table B-2 less Table B-1/Table B-1.

Table B-4

Priority Mail
TYBR Volume

Weight: (Pounds)	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	42,414,248	12,088,145	13,624,208	8,819,148	6,880,905	11,302,076	95,128,730
1	230,706,977	50,447,825	51,603,906	29,292,635	20,796,421	41,687,736	424,535,499
2	189,392,575	50,454,437	50,374,095	27,926,964	20,543,588	40,580,454	379,272,113
3	49,748,518	15,381,555	15,504,434	9,636,782	6,706,829	14,119,736	111,107,852
4	19,210,169	5,626,935	6,619,468	4,159,506	2,820,210	6,356,970	44,793,259
5	9,288,304	2,979,740	3,397,358	2,196,842	1,577,664	3,341,933	22,781,843
6	5,202,983	1,700,914	1,973,341	1,178,042	1,000,532	2,097,582	13,153,393
7	3,085,788	1,171,383	1,162,857	843,783	669,255	1,382,661	8,315,726
8	1,986,508	717,618	727,673	537,530	471,269	1,050,496	5,491,095
9	1,337,388	515,054	668,786	309,057	292,512	700,979	3,823,775
10	951,529	397,941	471,421	243,907	256,202	541,193	2,862,194
11	650,126	252,400	311,151	228,058	192,776	496,770	2,131,280
12	378,656	164,261	316,801	166,700	151,730	407,835	1,585,983
13	379,267	112,205	231,034	137,007	83,999	315,127	1,258,639
14	267,923	115,324	243,162	105,083	97,407	270,244	1,099,143
15	231,799	71,897	137,395	78,780	63,441	186,914	770,227
16	253,712	53,421	62,247	65,071	63,071	202,337	699,859
17	188,071	82,363	66,029	42,578	54,788	181,390	615,218
18	132,723	66,596	74,510	38,300	46,947	172,623	531,700
19	103,731	29,872	75,814	36,657	51,311	143,214	440,598
20	103,140	38,500	56,595	24,528	37,665	109,829	370,258
21	83,202	24,588	47,676	17,145	23,083	121,599	317,293
22	97,541	29,688	33,615	19,510	18,438	79,074	277,865
23	150,305	28,203	21,213	15,701	26,955	74,964	317,340
24	67,580	12,778	27,056	18,813	19,388	71,134	216,749
25	67,987	26,290	15,704	26,047	11,103	48,297	195,428
26	95,184	15,752	18,578	7,763	12,624	36,326	186,227
27	38,946	14,415	28,306	11,505	13,912	32,155	139,239
28	42,720	6,670	12,171	7,867	20,387	29,253	119,069
29	32,534	3,468	10,561	3,145	8,792	22,786	81,286
30	36,979	14,110	8,480	4,011	13,369	19,275	96,225
31	28,494	40,020	9,596	14,182	17,145	20,339	129,775
32	27,615	15,452	16,519	23,707	5,879	21,092	110,264
33	28,450	9,176	30,165	8,389	4,277	27,217	107,673
34	23,801	4,467	3,024	7,898	7,719	15,760	62,668
35	31,754	2,121	11,888	7,670	5,450	15,718	74,601
36	10,625	13,480	4,402	7,105	4,746	17,352	57,709
37	6,627	8,186	1,467	4,994	1,896	16,174	39,344
38	24,981	7,825	3,863	2,557	3,556	12,825	55,607
39	18,062	2,602	4,244	4,587	2,346	14,883	46,724
40	13,001	2,550	10,412	3,189	2,394	14,604	46,150
41	10,633	5,540	230	552	6,560	12,554	36,070
42	6,652	4,198	12,373	1,983	5,562	8,125	38,893
43	1,895	494	2,208	4,699	288	3,520	13,104
44	9,942	1,670	3,178	1,305	2,557	4,206	22,859
45	1,183	1,540	726	2,750	1,420	4,994	12,613
46	2,148	3,692	985	1,994	1,196	8,095	18,110
47	1,855	691	210	1,555	999	3,106	8,416
48	3,428	195	1,675	1,532	1,243	2,633	10,706
49	3,174	438	824	1,222	1,289	6,584	13,530
50	5,454	326	278	754	423	9,219	16,455
51	7,642	2,941	0	503	0	1,726	12,813
52	2,939	1,174	1,179	1,059	7,365	9,457	23,173
53	2,488	395	29	3,508	986	1,048	8,454
54	1,168	0	3,039	895	0	22	5,124
55	563	511	0	188	852	4,797	6,910
56	1,215	1,234	665	203	687	2,076	6,081
57	3,142	0	0	0	282	2,884	6,308
58	541	0	289	2,129	265	4,563	7,787
59	460	549	0	1,072	2,110	1,631	5,822
60	128	51	445	1,233	551	993	3,400
61	2,668	0	0	0	473	312	3,453
62	3,188	0	29	0	47	2,024	5,287
63	1,477	0	563	0	722	883	3,645
64	454	0	834	0	0	217	1,504
65	285	0	29	23	0	247	583
66	547	0	0	0	0	551	1,098
67	87	7,164	173	0	113	837	8,374
68	778	0	0	0	0	662	1,440
69	1,346	6,341	0	217	0	253	8,157
70	4,039	0	65	106	0	0	4,209
	557,022,042	142,799,366	148,051,251	86,312,227	63,117,972	126,457,141	<u>1,123,760,000</u>

Source: USPS-33-L.

Table B-5

Total Priority Mail Postal Service
Proposed Rate TYAR Volumes Using
Alternate Projection Procedure

Weight (Pounds)	<u>L1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	<u>Total</u>
Flat Rate	41,184,182	11,737,573	13,229,089	8,563,381	6,681,350	10,974,301	92,369,877
1	224,016,182	48,984,774	50,107,327	28,443,111	20,193,299	40,478,739	412,223,432
2	183,899,950	48,991,194	48,913,182	27,117,047	19,947,798	39,403,570	368,272,741
3	47,584,363	14,721,993	14,829,962	9,217,564	6,415,069	13,505,500	106,274,449
4	18,374,490	5,382,153	6,331,508	3,978,560	2,697,526	6,080,430	42,844,667
5	8,884,245	2,850,116	3,249,567	2,101,275	1,509,033	3,196,553	21,790,789
6	5,060,407	1,700,914	1,894,752	1,135,336	975,421	2,012,037	12,778,865
7	3,005,044	1,164,588	1,131,631	813,194	648,686	1,299,803	8,062,946
8	1,936,772	705,911	711,846	523,982	462,398	1,018,980	5,359,899
9	1,317,733	504,632	655,427	303,984	285,755	685,732	3,753,263
10	935,608	389,565	460,730	239,253	250,240	527,788	2,803,185
11	639,641	246,300	304,592	222,772	187,293	482,458	2,083,256
12	372,976	160,197	309,398	162,237	147,219	394,652	1,546,679
13	372,921	109,372	224,752	133,120	81,150	303,969	1,225,285
14	263,651	112,149	236,940	101,627	93,876	259,937	1,068,180
15	228,270	69,762	133,646	75,989	61,016	179,542	748,225
16	249,467	51,919	61,438	62,705	60,540	193,902	679,971
17	185,055	79,757	65,120	40,939	52,431	173,462	596,763
18	130,679	64,375	73,331	36,752	44,857	164,762	514,757
19	101,995	28,922	74,571	35,152	48,961	136,454	426,056
20	101,663	37,215	55,567	23,450	35,892	104,575	358,363
21	82,196	23,770	47,620	16,366	21,947	115,607	307,506
22	96,399	28,659	33,540	18,617	17,531	75,072	269,817
23	148,846	27,189	21,167	14,962	25,577	71,079	308,820
24	66,943	12,321	26,943	17,904	18,380	67,367	209,857
25	67,470	25,319	15,641	24,756	10,517	45,763	189,466
26	94,622	15,172	18,487	7,370	11,948	34,383	181,983
27	38,723	13,886	28,118	10,911	13,145	30,404	135,187
28	42,541	6,419	12,093	7,460	19,250	27,634	115,398
29	32,446	3,334	10,477	2,979	8,297	21,505	79,039
30	37,028	13,583	8,415	3,793	12,609	18,188	93,615
31	28,531	38,447	9,515	13,400	16,148	19,176	125,217
32	27,650	14,863	16,370	22,400	5,539	19,871	106,693
33	28,450	8,819	29,877	7,920	4,025	25,623	104,713
34	23,772	4,290	2,996	7,451	7,259	14,826	60,595
35	31,679	2,037	11,762	7,237	5,123	14,786	72,626
36	10,601	12,936	4,356	6,694	4,460	16,313	55,360
37	6,613	7,857	1,450	4,702	1,781	15,196	37,599
38	24,899	7,506	3,820	2,407	3,337	12,043	54,011
39	17,984	2,494	4,195	4,317	2,202	13,967	45,159
40	12,947	2,445	10,279	3,000	2,245	13,698	44,613
41	10,579	5,312	228	519	6,150	11,775	34,563
42	6,619	4,023	12,214	1,863	5,213	7,617	37,549
43	1,686	473	2,179	4,413	270	3,301	12,521
44	9,875	1,601	3,135	1,226	2,394	3,942	22,172
45	1,176	1,474	716	2,581	1,329	4,678	11,954
46	2,132	3,538	971	1,870	1,119	7,583	17,213
47	1,841	661	208	1,459	935	2,908	8,012
48	3,404	186	1,650	1,437	1,162	2,464	10,303
49	3,146	419	812	1,145	1,205	6,160	12,887
50	5,407	312	274	707	395	8,623	15,718
51	7,577	2,815	0	471	0	1,615	12,478
52	2,912	1,123	1,161	991	6,880	8,843	21,910
53	2,466	378	28	3,285	921	979	8,057
54	1,157	0	2,991	838	0	20	5,006
55	557	489	0	176	795	4,481	6,497
56	1,203	1,180	654	190	641	1,940	5,808
57	3,108	0	0	0	263	2,693	6,064
58	536	0	284	1,991	247	4,260	7,317
59	454	524	0	1,002	1,968	1,523	5,471
60	126	48	438	1,153	514	926	3,204
61	2,637	0	0	0	441	291	3,369
62	3,151	0	28	0	44	1,889	5,112
63	1,460	0	553	0	673	824	3,509
64	448	0	819	0	0	202	1,469
65	282	0	28	21	0	230	561
66	540	0	0	0	0	514	1,054
67	86	6,844	170	0	105	781	7,986
68	769	0	0	0	0	617	1,385
69	1,328	6,060	0	202	0	235	7,825
70	3,984	0	64	99	0	0	4,147
	539,846,676	138,402,191	143,401,100	83,563,725	61,124,792	122,341,559	1,088,680,044

Source: Table B-4 times percent change times "effective TY own-price elasticity (-0.432019) using formula
 $TYAR V_u = TYBR V_u (1 - 0.435019 * \&R_u)$

Table B-6

**Total Priority Mail Postal Service
Proposed Rate TYAR Revenues Using
Alternate Projection Procedure**

Weight (Pounds)	1.1-2.83	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	131,789,381	37,560,235	42,333,083	27,402,820	21,380,321	35,117,765	295,583,605
1	716,851,783	156,751,277	160,343,447	91,017,956	64,618,555	129,531,964	1,319,114,983
2	588,479,840	156,771,822	156,522,183	86,774,551	63,832,954	126,091,423	1,178,472,772
3	209,371,195	64,776,768	65,251,831	40,557,280	28,226,303	59,424,201	467,607,578
4	101,059,898	29,601,840	34,823,297	21,882,079	14,836,391	33,442,366	235,645,670
5	58,636,018	18,810,766	21,447,140	13,868,416	9,959,618	21,097,250	143,819,208
6	34,157,746	11,736,304	14,684,326	8,855,618	8,047,223	17,605,320	95,086,538
7	21,185,558	8,850,873	9,732,023	7,400,068	6,389,553	14,492,806	68,050,882
8	14,235,273	5,859,082	6,726,943	5,266,122	5,017,022	12,635,350	49,739,772
9	10,080,656	4,541,690	6,718,126	3,343,824	3,400,487	9,360,237	37,445,020
10	7,578,428	3,798,260	5,114,106	2,847,111	3,203,071	7,837,654	30,378,630
11	5,470,643	2,573,833	3,624,641	2,862,618	2,594,011	7,767,575	24,893,320
12	3,356,786	1,786,200	3,944,820	2,238,872	2,186,206	6,847,211	20,360,095
13	3,524,108	1,296,062	3,056,629	1,956,867	1,290,290	5,653,817	16,777,773
14	2,610,145	1,413,072	3,411,930	1,590,468	1,586,506	5,159,750	15,771,871
15	2,362,591	927,833	2,038,109	1,261,425	1,095,231	3,779,353	11,464,541
16	2,694,241	726,864	952,285	1,097,338	1,147,240	4,324,018	10,941,986
17	2,081,864	1,176,415	1,061,453	755,326	1,048,617	4,085,033	10,208,708
18	1,528,949	994,599	1,253,967	712,981	941,992	4,086,109	9,518,598
19	1,239,242	467,095	1,334,821	713,594	1,079,591	3,554,627	8,388,970
20	1,275,875	627,080	1,039,099	498,306	827,322	2,849,666	7,117,349
21	1,064,440	418,357	892,882	363,321	528,918	3,294,795	6,562,713
22	1,286,921	524,460	654,023	430,049	440,024	2,233,401	5,568,879
23	2,046,639	516,592	428,638	359,825	668,829	2,203,443	6,223,966
24	947,248	243,333	567,159	447,589	499,007	2,172,573	4,876,909
25	981,687	517,769	340,969	641,180	296,589	1,530,764	4,308,958
26	1,414,605	320,896	416,886	197,874	348,890	1,193,081	3,892,233
27	594,392	303,405	656,561	303,324	397,651	1,093,024	3,348,355
28	670,026	145,075	291,433	214,115	601,576	1,027,977	2,950,202
29	524,000	77,687	260,876	88,339	267,998	826,870	2,045,769
30	607,254	325,982	215,834	116,056	419,668	721,173	2,406,167
31	480,743	951,571	251,206	422,766	554,672	784,298	3,445,255
32	478,344	378,272	445,270	726,877	195,813	837,555	3,062,131
33	504,982	230,605	835,053	264,541	146,504	1,112,020	3,093,706
34	433,842	115,174	85,987	255,951	271,497	661,994	1,824,446
35	592,406	56,225	346,989	255,097	196,742	677,954	2,125,413
36	203,002	366,096	131,775	242,334	175,950	768,324	1,887,480
37	129,606	227,864	45,034	174,673	72,031	734,730	1,383,938
38	499,221	223,304	121,465	91,602	138,476	597,322	1,671,390
39	369,579	75,935	136,536	168,368	93,602	710,227	1,554,248
40	271,881	76,147	342,801	119,850	97,751	713,684	1,622,115
41	226,917	169,187	7,761	21,192	273,975	627,633	1,326,664
42	144,947	131,156	425,651	77,890	237,725	415,508	1,432,877
43	42,148	15,745	77,668	188,655	12,572	184,171	520,959
44	225,633	54,437	114,123	53,502	114,077	224,874	786,645
45	27,389	51,219	26,648	115,128	64,636	272,737	557,756
46	50,637	125,415	36,853	85,188	55,602	451,214	804,909
47	44,555	23,912	8,031	67,760	47,393	176,664	368,314
48	83,899	6,864	65,176	68,097	60,145	152,788	436,969
49	79,122	15,756	32,665	55,361	63,577	389,631	636,112
50	138,410	11,966	11,231	34,830	21,274	556,167	773,878
51	197,374	109,797	0	23,654	0	106,091	436,917
52	77,167	44,652	49,396	50,692	384,223	592,022	1,198,152
53	66,449	15,296	1,231	170,975	52,331	66,790	373,072
54	31,754	0	131,892	44,401	0	1,405	209,454
55	15,546	20,468	0	9,474	46,813	316,773	409,074
56	34,096	50,277	29,875	10,436	38,423	139,470	302,579
57	89,520	0	0	0	16,006	196,999	302,525
58	15,666	0	13,392	112,961	15,299	316,964	474,283
59	13,518	23,458	0	57,776	123,982	115,186	333,920
60	3,806	2,196	21,316	67,542	32,894	71,219	198,972
61	80,832	0	0	0	28,663	22,718	132,213
62	98,011	0	1,426	0	2,889	149,857	252,182
63	46,049	0	28,218	0	45,129	66,408	185,804
64	14,354	0	42,412	0	0	16,534	73,300
65	9,152	0	1,490	1,350	0	19,113	31,105
66	17,804	0	0	0	0	43,321	61,125
67	2,856	345,281	9,204	0	7,496	66,794	431,630
68	26,017	0	0	0	0	53,541	79,558
69	45,608	314,204	0	13,536	0	20,733	394,081
70	138,643	0	3,596	6,710	0	0	148,949
	1,935,758,722	518,673,987	554,020,888	330,124,481	250,866,017	544,472,027	<u>4,133,916,122</u>

Source: Table B-5 (TYAR volume) times Table B-2 (USPS Priority Mail Proposed Rates)

Table B-7

Total Priority Mail Postal Service
Proposed Rate TYAR Costs (with Contingency)
Using Alternate Projection Procedure

Weight: (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	59,029,862	18,450,487	21,393,709	14,593,892	11,744,882	20,819,214	146,032,046
1	321,085,519	76,999,980	81,032,158	48,473,340	35,497,002	76,791,725	839,879,724
2	302,313,417	94,117,321	98,394,606	59,270,140	45,740,195	101,324,288	701,159,967
3	88,244,686	33,423,299	35,681,820	24,585,173	18,142,641	43,836,302	243,913,921
4	37,944,734	14,098,482	17,731,443	12,527,307	9,072,488	23,836,336	115,210,789
5	20,217,561	8,461,076	10,382,216	7,628,046	5,882,810	14,686,672	67,258,381
6	12,581,447	5,643,407	6,801,021	4,668,151	4,324,560	10,601,211	44,619,797
7	8,104,121	4,270,614	4,508,241	3,735,154	3,223,102	7,725,065	31,566,297
8	5,631,023	2,835,114	3,116,668	2,659,094	2,544,948	6,743,220	23,530,067
9	4,108,711	2,202,941	3,128,180	1,688,989	1,725,657	5,000,342	17,854,819
10	3,114,269	1,836,655	2,380,677	1,444,531	1,645,094	4,204,541	14,625,767
11	2,264,520	1,247,218	1,694,025	1,452,286	1,331,505	4,168,777	12,158,331
12	1,398,578	867,150	1,842,795	1,135,767	1,125,393	3,676,208	10,045,891
13	1,476,905	630,225	1,427,293	996,026	663,767	3,036,473	8,230,688
14	1,099,676	685,383	1,598,149	809,324	818,093	2,771,913	7,782,539
15	1,000,173	450,702	954,157	641,742	564,379	2,035,671	5,646,823
16	1,145,584	353,555	462,863	559,745	592,380	2,329,252	5,443,379
17	888,765	570,977	516,290	385,160	541,087	2,200,692	5,102,970
18	655,136	483,340	610,318	363,460	486,926	2,201,430	4,800,610
19	532,812	227,252	650,050	364,570	557,680	1,915,214	4,247,577
20	552,487	305,410	506,304	254,490	428,033	1,538,292	3,585,017
21	464,003	203,372	452,683	185,492	273,469	1,778,532	3,357,552
22	564,477	255,206	332,060	219,969	227,825	1,205,562	2,805,100
23	902,939	251,610	217,917	183,984	346,073	1,189,365	3,091,887
24	420,192	118,319	288,009	228,783	258,527	1,172,678	2,486,507
25	437,705	251,985	173,360	328,266	153,564	827,471	2,172,353
26	633,781	156,301	212,201	101,270	180,852	644,887	1,929,293
27	267,519	147,896	333,841	155,187	206,007	590,764	1,701,214
28	302,859	70,612	148,343	109,703	311,982	555,573	1,499,072
29	237,820	37,841	132,655	45,245	138,908	446,858	1,039,327
30	279,202	158,895	109,861	59,422	217,836	390,208	1,215,425
31	221,140	463,199	127,987	216,395	287,620	424,325	1,740,666
32	220,136	184,258	226,645	372,523	101,629	453,100	1,558,291
33	232,494	112,401	425,427	135,534	75,998	601,533	1,583,387
34	199,275	56,172	43,844	131,094	140,956	358,070	929,412
35	272,231	27,388	176,768	130,805	102,226	367,077	1,076,495
36	93,327	178,437	67,184	124,223	91,376	415,967	970,515
37	59,608	111,125	22,941	89,514	37,436	397,744	718,368
38	229,693	108,777	61,923	46,991	71,933	323,330	842,648
39	169,694	37,010	69,657	86,347	48,658	384,414	795,780
40	124,887	37,133	174,747	61,447	50,791	386,255	835,260
41	104,274	82,546	3,959	10,876	142,450	339,976	684,080
42	66,632	63,923	217,277	39,961	123,546	225,052	736,391
43	19,383	7,677	39,616	96,764	6,538	99,744	269,721
44	103,570	26,558	58,247	27,466	59,298	121,777	396,916
45	12,577	24,963	13,591	59,087	33,618	147,685	291,521
46	23,260	61,153	18,807	43,709	28,908	244,515	420,353
47	20,474	11,664	4,101	34,796	24,654	95,726	191,415
48	38,566	3,350	33,258	34,960	31,275	82,782	224,190
49	36,310	7,682	16,678	28,414	33,077	211,087	333,249
50	63,540	5,837	5,737	17,890	11,064	301,286	405,354
51	90,638	53,579	0	12,147	0	57,511	213,875
52	35,448	21,771	25,231	26,025	199,849	320,899	629,223
53	30,534	7,461	628	87,843	27,233	36,200	189,898
54	14,569	0	67,360	22,807	0	762	105,498
55	7,135	9,991	0	4,865	24,364	171,661	218,016
56	15,654	24,522	15,256	5,363	19,991	75,626	156,412
57	41,111	0	0	0	8,331	106,811	156,254
58	7,197	0	6,845	58,022	7,960	171,841	251,866
59	6,201	11,441	0	29,696	64,541	62,443	174,321
60	1,746	1,071	10,894	34,707	17,118	38,605	104,142
61	37,103	0	0	0	14,922	12,321	64,346
62	45,000	0	729	0	1,503	81,270	128,503
63	21,149	0	14,426	0	23,497	36,012	95,083
64	6,584	0	21,671	0	0	8,965	37,219
65	4,199	0	762	694	0	10,363	16,018
66	8,170	0	0	0	0	23,501	31,671
67	1,311	168,489	4,704	0	3,903	36,231	214,639
68	11,946	0	0	0	0	29,040	40,986
69	20,916	153,417	0	6,959	0	11,244	192,537
70	63,600	0	1,839	3,449	0	0	68,887
	880,681,766	271,875,621	299,192,651	191,935,081	150,883,927	357,517,486	2,152,086,533

Source: Table B-5 (TYAR volume) times Table C-2 (Unit Costs w/ Contingency)

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Appendix C

NDMS PROPOSED RATES

This appendix develops the NDMS proposed Priority Mail rates in
Section VI of the testimony (Table 4) through the following eleven tables.

Table

- C-1 Distance-Related TYBR Transportation Unit Costs Including 1
Percent Contingency
- C-2 Total TYBR Unit Costs Including 1 Percent Contingency
- C-3 Total TYBR Unit Costs less Distance-Related Transportation
Costs, Including 1 Percent Contingency
- C-4 Average TYBR Costs for 2-Pounds and Under Rate Including 1
Percent Contingency
- C-5 Implicit Coverage Factor Times Applicable Unit Costs
- C-6 Initial Cost-Based Rates with 100 Percent Passthrough for
Distance-related Costs
- C-7 NDMS Proposed Rates
- C-8 Percentage Change, NDMS Proposed Rates from Docket No.
R94-1 Remand Rates
- C-9 Projected TYAR Volumes, NDMS Proposed Rates
- C-10 Projected TYAR Revenues, NDMS Proposed Rates
- C-11 Projected TYAR Costs Including 1 Percent Contingency, NDMS
Proposed Rates

1 Tables C-1 through C-4 develop the unit costs on which the rates are
2 based. Tables C-5 through C-7 develop proposed rates, and Tables C-8
3 through C-11 develop supporting data showing the effect of proposed rates.

4 **Table C-1: Distance-related Transportation Costs**

5 Total air distance-related costs of \$194,296,000¹⁰⁰ plus \$31,553,000¹⁰¹
6 amounts to \$225,849,000. This total is distributed to individual zones per
7 the distribution in USPS-33O, which was not revised. The amount
8 distributed to each zone is divided by total Postage Pounds for that zone¹⁰² to
9 obtain an air distance-related TYBR unit cost per pound per zone.

10 **Surface** distance-related transportation unit costs for Zone L, 1, 2 & 3
11 and Zone 4 **only** are developed using the same methodology.

12 Total transportation distance-related unit cost is the sum of **air**
13 distance-related TYBR unit cost plus **surface** distance-related TYBR unit
14 cost. For Zone 5 through Zone 8, **only the distance-related air TYBR**
15 **unit cost is used.** The result is shown below.

¹⁰⁰ USPS-33O, column 3.

¹⁰¹ USPS-33Q (revised 10/6/97).

¹⁰² USPS-33O, column 7.

1 **Distance-Related Transportation Unit Costs**

2	Zone	Surface	Air	Total
3	L, 1, 2&3	\$ 0.12676	\$ 0.00110	\$ 0.13
4	4	0.10044	0.03866	0.14
5	5	0.00	0.10173	0.10
6	6	0.00	0.16308	0.16
7	7	0.00	0.22345	0.22
8	8	0.00	0.36074	0.36

9 **Table C-2: Total TYBR Unit Cost**

10 Total TYBR unit cost consists of the following four components:

- 11 • Distance-related transportation costs (Table C-1);
- 12 • Non-distance-related transportation costs;
- 13 • Weight-related costs of 2 cents per pound; and
- 14 • Per-piece costs of \$1.21.

15 **Non-distance-related transportation cost.** Surface TYBR non-
16 distance unit cost is \$0.051452 per pound, derived by dividing surface non-
17 distance-related total costs of \$121,921,000¹⁰³ by TYBR total postage pounds,
18 2,369,626,656.¹⁰⁴ This cost applies to all zones.

¹⁰³ USPS-33Q.

¹⁰⁴ USPS-33O, (revised 10/6/97).

1 **Air terminal handling costs of \$278,237,000¹⁰⁵** are divided by TYBR
2 **total postage pounds and distributed in proportion to the Priority Mail**
3 **postage pounds that travel by air to each zone to obtain the revised**
4 **individual zone air terminal handling (non-distance-related) costs.**

5 **Total transportation non-distance-related unit cost is the sum of the**
6 **surface and air unit costs described above and shown in the table below.**

7 **NON-DISTANCE-RELATED TRANSPORTATION COSTS**

8	Zone	Surface Costs	Air Terminal Costs	Total
9	L, 1, 2&3	\$ 0.05145	\$ 0.00919	\$ 0.06
10	4	0.05145	0.13518	0.19
11	5	0.05145	0.21736	0.27
12	6	0.05145	0.24219	0.29
13	7	0.05145	0.23493	0.29
14	8	0.05145	0.23549	0.29

15 **Weight-related cost.** In accordance with Commission precedent,
16 each rate cell contains a \$0.02 per pound non-transportation weight-related
17 cost.

18 **Per-piece cost.** USPS-33N, Line 1 (revised 10/06/97) gives the total
19 attributable costs (TYBR roll forward, June 5, 1997) as \$2,201,378,000.
20 Subtracting total weight-related costs of \$840,931,533 from this amount

¹⁰⁵

Id.

1 leaves a balance of \$1,360,446,467 to be distributed over TYBR volume of
2 1,123,760,000 pieces (USPS-33N, Line 9, revised 10/06/97), which equals a
3 unit cost of \$1.2106 per piece.

4 The sum of the per-piece unit cost (\$1.21), two-cents per pound non-
5 transportation weight-related unit costs, and total transportation unit costs
6 multiplied by the contingency (1.01) equals the total unit cost for each weight
7 cell shown in Table C-2.

8 **Table C-3: Total Unit Costs Less**
9 **Distance-related Transportation Costs**

10 Deducting the distance-related transportation TYBR unit costs in
11 Table C-1 from the total TYBR unit costs in Table C-2 gives the net TYBR
12 unit costs, including 1 percent contingency, as shown in Table C-3.

13 **Table C-4: Averaging of Two-pound-and-under Costs**

14 Witness Sharkey averages the allocated costs for the two-pound-and-
15 under rate category.¹⁰⁶ To provide a measure of comparison, we have
16 averaged the unit costs by zone for the two-pound-and-under rate category,
17 and have also averaged the unit distance-related transportation costs within
18 the weight category, as shown in Table C-4.

¹⁰⁶ Response of witness Sharkey to UPS/USPS-T33-39 (Tr. 4/2032).

1 Table C-5: Implicit Coverage Factor Times Applicable Unit Costs

2 The implicit coverage factor of 2.15 is multiplied by the unit costs to be
3 marked up; i.e., total unit costs less distance-related unit costs. For pieces in
4 the 3 to 70 pound rate cells, the unit costs are in Table C-3; for two-pound-
5 and-under pieces, the unit costs are in Table C-4, Part C.

6 Table C-6: Initial Cost-Based Rates with
7 100 Percent Passthrough for Distance-related Costs

8 Distance-related transportation costs, including contingency (Table C-
9 1), are added to the marked-up costs in Table C-5. The results, shown in
10 Table C-6, are initial cost-based rates for each cell.

11 Table C-7: NDMS Proposed Rates

12 The initial cost-based rates for pieces weighing up to 5 pounds
13 (developed according to the procedure and formula described above in Table
14 C-6), are adjusted to uniform, unzoned rates, beginning at \$3.30 for two-
15 pounds-and-under (including flat-rate envelopes), and increasing by \$1.10 for
16 each one-pound increment, to \$6.60 for a piece that weighs 4-5 pounds.

17 Zone L,1,2&3 rates for 6 through 17 pounds, as well as Zone 4 rates for
18 6 and 7 pounds, have been tapered to provide a smooth adjustment from the
19 unzoned 5-pound rate, as well as eliminate any anomaly.

1 All other zoned rates from 6 - 70 pounds are rounded to the nearest
2 nickel, in accordance with Commission precedent. The results are the NDMS
3 Proposed Rates shown in Table C-7 and Table 4 in the testimony.

4 **Table C-8: Percent Change from Docket No. R94-1 Remand Rates**

5 The difference between the NDMS Proposed Rates (Table C-8) and the
6 Docket No. R94-1 Remand Rates (Table B-1), as a percent of the Docket No.
7 R94-1 Remand Rates, is shown in Table C-8.

8 **Table C-9: Projected TYAR Volume**

9 The projected TYAR volume for the NDMS Proposed Rates
10 (1,077,498,906 pieces) is developed using the alternate procedure discussed
11 in the testimony, along with the formula shown in the text and in Appendix
12 B:

13
$$TYAR_{ij} = TYBR V_{ij} (1 - 0.435019 * R_{ij})$$

14 **Table C-10: Projected TYAR Revenue**

15 Projected TYAR Priority Mail revenues of \$4,148,072,578 are obtained
16 by multiplying NDMS Proposed Rates (Table C-7) by projected TYAR
17 volumes (Table C-9).

1 Table C-11: Projected TYAR Costs

2 Projected TYAR cost, including 1-percent contingency
3 (\$2,141,765,077), is derived by multiplying projected TYAR volume (Table
4 C-9) times unit costs (Table C-2). This cost, subtracted from projected TYAR
5 revenues (\$4,148,072,578 Table C-9), results in a contribution to institutional
6 costs of \$2,006,307,501 as shown in Table 5 of the testimony.

Table C-1

Priority Mail
Distance-Related TYBR Transportation Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	<u>Zone 1, 2 & 3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
1	0.13	0.14	0.10	0.16	0.23	0.36
2	0.26	0.28	0.21	0.33	0.45	0.73
3	0.39	0.42	0.31	0.49	0.68	1.09
4	0.52	0.56	0.41	0.66	0.90	1.46
5	0.65	0.70	0.51	0.82	1.13	1.82
6	0.77	0.84	0.62	0.99	1.35	2.19
7	0.90	0.98	0.72	1.15	1.58	2.55
8	1.03	1.12	0.82	1.32	1.81	2.91
9	1.16	1.26	0.92	1.48	2.03	3.28
10	1.29	1.40	1.03	1.65	2.26	3.64
11	1.42	1.55	1.13	1.81	2.48	4.01
12	1.55	1.69	1.23	1.98	2.71	4.37
13	1.68	1.83	1.34	2.14	2.93	4.74
14	1.81	1.97	1.44	2.31	3.16	5.10
15	1.94	2.11	1.54	2.47	3.39	5.47
16	2.07	2.25	1.64	2.64	3.61	5.83
17	2.20	2.39	1.75	2.80	3.84	6.19
18	2.32	2.53	1.85	2.96	4.06	6.56
19	2.45	2.67	1.95	3.13	4.29	6.92
20	2.58	2.81	2.06	3.29	4.51	7.29
21	2.71	2.95	2.16	3.46	4.74	7.65
22	2.84	3.09	2.26	3.62	4.97	8.02
23	2.97	3.23	2.36	3.79	5.19	8.38
24	3.10	3.37	2.47	3.95	5.42	8.74
25	3.23	3.51	2.57	4.12	5.64	9.11
26	3.36	3.65	2.67	4.28	5.87	9.47
27	3.49	3.79	2.77	4.45	6.09	9.84
28	3.62	3.93	2.88	4.61	6.32	10.20
29	3.75	4.07	2.98	4.78	6.54	10.57
30	3.87	4.21	3.08	4.94	6.77	10.93
31	4.00	4.36	3.19	5.11	7.00	11.29
32	4.13	4.50	3.29	5.27	7.22	11.66
33	4.26	4.64	3.39	5.44	7.45	12.02
34	4.39	4.78	3.49	5.60	7.67	12.39
35	4.52	4.92	3.60	5.76	7.90	12.75
36	4.65	5.06	3.70	5.93	8.12	13.12
37	4.78	5.20	3.80	6.09	8.35	13.48
38	4.91	5.34	3.90	6.26	8.58	13.85
39	5.04	5.48	4.01	6.42	8.80	14.21
40	5.17	5.62	4.11	6.59	9.03	14.57
41	5.29	5.76	4.21	6.75	9.25	14.94
42	5.42	5.90	4.32	6.92	9.48	15.30
43	5.55	6.04	4.42	7.08	9.70	15.67
44	5.68	6.18	4.52	7.25	9.93	16.03
45	5.81	6.32	4.62	7.41	10.16	16.40
46	5.94	6.46	4.73	7.58	10.38	16.76
47	6.07	6.60	4.83	7.74	10.61	17.12
48	6.20	6.74	4.93	7.91	10.83	17.49
49	6.33	6.88	5.03	8.07	11.06	17.85
50	6.46	7.02	5.14	8.24	11.28	18.22
51	6.59	7.17	5.24	8.40	11.51	18.58
52	6.72	7.31	5.34	8.57	11.74	18.95
53	6.84	7.45	5.45	8.73	11.96	19.31
54	6.97	7.59	5.55	8.89	12.19	19.67
55	7.10	7.73	5.65	9.06	12.41	20.04
56	7.23	7.87	5.75	9.22	12.64	20.40
57	7.36	8.01	5.86	9.39	12.86	20.77
58	7.49	8.15	5.96	9.55	13.09	21.13
59	7.62	8.29	6.06	9.72	13.32	21.50
60	7.75	8.43	6.17	9.88	13.54	21.86
61	7.88	8.57	6.27	10.05	13.77	22.23
62	8.01	8.71	6.37	10.21	13.99	22.59
63	8.14	8.85	6.47	10.38	14.22	22.95
64	8.27	8.99	6.58	10.54	14.44	23.32
65	8.39	9.13	6.68	10.71	14.67	23.68
66	8.52	9.27	6.78	10.87	14.90	24.05
67	8.65	9.41	6.88	11.04	15.12	24.41
68	8.78	9.55	6.99	11.20	15.35	24.78
69	8.91	9.69	7.09	11.37	15.57	25.14
70	9.04	9.83	7.19	11.53	15.80	25.50

Sources:

[1] USPS 33-O.

[2] USPS 33-Q (revised 10/06/97).

Table C-2

Priority Mail
Total TYBR Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	<u>L.1.2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
1	1.43	1.57	1.62	1.70	1.76	1.90
2	1.64	1.92	2.01	2.19	2.29	2.57
3	1.85	2.27	2.41	2.67	2.83	3.25
4	2.07	2.62	2.80	3.15	3.36	3.92
5	2.28	2.97	3.19	3.63	3.90	4.59
6	2.49	3.32	3.59	4.11	4.43	5.27
7	2.70	3.67	3.98	4.59	4.97	5.94
8	2.91	4.02	4.38	5.07	5.50	6.62
9	3.12	4.37	4.77	5.56	6.04	7.29
10	3.33	4.71	5.17	6.04	6.57	7.97
11	3.54	5.06	5.56	6.52	7.11	8.64
12	3.75	5.41	5.96	7.00	7.64	9.32
13	3.96	5.76	6.35	7.48	8.18	9.99
14	4.17	6.11	6.74	7.96	8.71	10.66
15	4.38	6.46	7.14	8.45	9.25	11.34
16	4.59	6.81	7.53	8.93	9.78	12.01
17	4.80	7.16	7.93	9.41	10.32	12.69
18	5.01	7.51	8.32	9.89	10.86	13.36
19	5.22	7.86	8.72	10.37	11.39	14.04
20	5.43	8.21	9.11	10.85	11.93	14.71
21	5.65	8.56	9.51	11.33	12.46	15.38
22	5.86	8.90	9.90	11.82	13.00	16.06
23	6.07	9.25	10.29	12.30	13.53	16.73
24	6.28	9.60	10.69	12.78	14.07	17.41
25	6.49	9.95	11.08	13.26	14.60	18.08
26	6.70	10.30	11.48	13.74	15.14	18.76
27	6.91	10.65	11.87	14.22	15.67	19.43
28	7.12	11.00	12.27	14.70	16.21	20.10
29	7.33	11.35	12.66	15.19	16.74	20.78
30	7.54	11.70	13.06	15.67	17.28	21.45
31	7.75	12.05	13.45	16.15	17.81	22.13
32	7.96	12.40	13.84	16.63	18.35	22.80
33	8.17	12.75	14.24	17.11	18.88	23.48
34	8.38	13.10	14.63	17.59	19.42	24.15
35	8.59	13.44	15.03	18.08	19.95	24.83
36	8.80	13.79	15.42	18.56	20.49	25.50
37	9.01	14.14	15.82	19.04	21.02	26.17
38	9.23	14.49	16.21	19.52	21.56	26.85
39	9.44	14.84	16.61	20.00	22.09	27.52
40	9.65	15.19	17.00	20.48	22.63	28.20
41	9.86	15.54	17.39	20.96	23.16	28.87
42	10.07	15.89	17.79	21.45	23.70	29.55
43	10.28	16.24	18.18	21.93	24.23	30.22
44	10.49	16.59	18.58	22.41	24.77	30.89
45	10.70	16.94	18.97	22.89	25.30	31.57
46	10.91	17.29	19.37	23.37	25.84	32.24
47	11.12	17.63	19.76	23.85	26.37	32.92
48	11.33	17.98	20.16	24.33	26.91	33.59
49	11.54	18.33	20.55	24.82	27.44	34.27
50	11.75	18.68	20.94	25.30	27.98	34.94
51	11.96	19.03	21.34	25.78	28.51	35.62
52	12.17	19.38	21.73	26.26	29.05	36.29
53	12.38	19.73	22.13	26.74	29.58	36.96
54	12.59	20.08	22.52	27.22	30.12	37.64
55	12.81	20.43	22.92	27.70	30.66	38.31
56	13.02	20.78	23.31	28.19	31.19	38.99
57	13.23	21.13	23.71	28.67	31.73	39.66
58	13.44	21.48	24.10	29.15	32.26	40.34
59	13.65	21.82	24.49	29.63	32.80	41.01
60	13.86	22.17	24.89	30.11	33.33	41.68
61	14.07	22.52	25.28	30.59	33.87	42.36
62	14.28	22.87	25.68	31.08	34.40	43.03
63	14.49	23.22	26.07	31.56	34.94	43.71
64	14.70	23.57	26.47	32.04	35.47	44.38
65	14.91	23.92	26.86	32.52	36.01	45.06
66	15.12	24.27	27.26	33.00	36.54	45.73
67	15.33	24.62	27.65	33.48	37.08	46.40
68	15.54	24.97	28.05	33.96	37.61	47.08
69	15.75	25.32	28.44	34.45	38.15	47.75
70	15.96	25.67	28.83	34.93	38.68	48.43

Sources:

[1] USPS 33-O.

[2] USPS 33-O (Revised 10/06/97).

Table C-3

Priority Mail
Total TYBR Unit Costs less Distance-Related Transportation Costs
Including 1 Percent Contingency

Weight (Pounds)	<u>L1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
1	1.30	1.43	1.51	1.54	1.53	1.53
2	1.39	1.64	1.81	1.86	1.84	1.84
3	1.47	1.85	2.10	2.17	2.15	2.15
4	1.55	2.06	2.39	2.49	2.46	2.46
5	1.63	2.27	2.68	2.81	2.77	2.77
6	1.71	2.47	2.97	3.12	3.08	3.08
7	1.79	2.68	3.26	3.44	3.39	3.39
8	1.87	2.89	3.56	3.76	3.70	3.70
9	1.96	3.10	3.85	4.07	4.01	4.01
10	2.04	3.31	4.14	4.39	4.32	4.32
11	2.12	3.52	4.43	4.71	4.63	4.63
12	2.20	3.73	4.72	5.02	4.94	4.94
13	2.28	3.94	5.01	5.34	5.25	5.25
14	2.36	4.14	5.31	5.66	5.55	5.55
15	2.44	4.35	5.60	5.97	5.86	5.86
16	2.53	4.56	5.89	6.29	6.17	6.17
17	2.61	4.77	6.18	6.61	6.48	6.48
18	2.69	4.98	6.47	6.92	6.79	6.79
19	2.77	5.19	6.76	7.24	7.10	7.10
20	2.85	5.40	7.06	7.56	7.41	7.41
21	2.93	5.61	7.35	7.88	7.72	7.72
22	3.01	5.81	7.64	8.19	8.03	8.03
23	3.10	6.02	7.93	8.51	8.34	8.34
24	3.18	6.23	8.22	8.83	8.65	8.65
25	3.26	6.44	8.52	9.14	8.96	8.96
26	3.34	6.65	8.81	9.46	9.27	9.27
27	3.42	6.86	9.10	9.78	9.58	9.58
28	3.50	7.07	9.39	10.09	9.89	9.89
29	3.58	7.28	9.68	10.41	10.20	10.20
30	3.67	7.48	9.97	10.73	10.51	10.51
31	3.75	7.69	10.27	11.04	10.82	10.82
32	3.83	7.90	10.56	11.36	11.13	11.13
33	3.91	8.11	10.85	11.68	11.43	11.43
34	3.99	8.32	11.14	11.99	11.74	11.74
35	4.07	8.53	11.43	12.31	12.05	12.05
36	4.15	8.74	11.72	12.63	12.36	12.36
37	4.24	8.94	12.02	12.94	12.67	12.67
38	4.32	9.15	12.31	13.26	12.98	12.98
39	4.40	9.36	12.60	13.58	13.29	13.29
40	4.48	9.57	12.89	13.89	13.60	13.60
41	4.56	9.78	13.18	14.21	13.91	13.91
42	4.64	9.99	13.47	14.53	14.22	14.22
43	4.72	10.20	13.77	14.84	14.53	14.53
44	4.81	10.41	14.06	15.16	14.84	14.84
45	4.89	10.61	14.35	15.48	15.15	15.15
46	4.97	10.82	14.64	15.79	15.46	15.46
47	5.05	11.03	14.93	16.11	15.77	15.77
48	5.13	11.24	15.22	16.43	16.08	16.08
49	5.21	11.45	15.52	16.75	16.39	16.39
50	5.29	11.66	15.81	17.06	16.70	16.70
51	5.38	11.87	16.10	17.38	17.00	17.00
52	5.46	12.08	16.39	17.70	17.31	17.31
53	5.54	12.28	16.68	18.01	17.62	17.62
54	5.62	12.49	16.97	18.33	17.93	17.93
55	5.70	12.70	17.27	18.65	18.24	18.24
56	5.78	12.91	17.56	18.96	18.55	18.55
57	5.87	13.12	17.85	19.28	18.86	18.86
58	5.95	13.33	18.14	19.60	19.17	19.17
59	6.03	13.54	18.43	19.91	19.48	19.48
60	6.11	13.74	18.72	20.23	19.79	19.79
61	6.19	13.95	19.02	20.55	20.10	20.10
62	6.27	14.16	19.31	20.86	20.41	20.41
63	6.35	14.37	19.60	21.18	20.72	20.72
64	6.44	14.58	19.89	21.50	21.03	21.03
65	6.52	14.79	20.18	21.81	21.34	21.34
66	6.60	15.00	20.47	22.13	21.65	21.65
67	6.68	15.21	20.77	22.45	21.96	21.96
68	6.76	15.41	21.06	22.76	22.27	22.27
69	6.84	15.62	21.35	23.08	22.57	22.57
70	6.92	15.83	21.64	23.40	22.88	22.88

Source:
Table C-2 less Table C-1.

Table C-4

Priority Mail
Average TYBR Costs for 2-Pounds and Under Rate
Including 1 Percent Contingency

A. Total Unit Costs							
Weight	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	60,792,072	19,001,310	22,032,408	15,029,595	12,095,532	21,440,802	150,391,719
1	330,670,839	79,298,749	83,451,334	49,920,520	36,556,785	79,084,452	658,982,679
2	311,338,903	96,927,341	101,332,379	81,039,821	47,105,921	104,349,762	722,094,127
Cost	702,801,814	195,227,399	206,816,122	125,969,936	95,758,238	204,875,016	1,531,468,525
Volume	462,513,800	112,990,407	115,602,208	66,038,747	48,220,915	93,570,266	898,936,343
Unit Cost	1.52	1.73	1.79	1.91	1.99	2.19	1.70

B. Distance-Related Transportation Costs							
Weight	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	5,477,450	1,698,268	1,399,887	1,452,621	1,552,919	4,117,883	15,699,029
1	29,793,903	7,067,434	5,302,301	4,824,852	4,693,447	15,188,822	66,890,760
2	48,916,977	14,176,727	10,351,877	9,199,820	9,272,772	29,570,774	121,488,946
Cost	84,188,330	22,962,429	17,054,065	15,477,293	15,519,138	48,877,479	204,078,734
Volume	462,513,800	112,990,407	115,602,208	66,038,747	48,220,915	93,570,266	898,936,343
Unit Cost	0.18	0.20	0.15	0.23	0.32	0.52	0.23

C. Net Unit Costs (A - B)							
Unit Cost	1.34	1.52	1.64	1.67	1.66	1.67	1.48

Sources

- [1] USPS 33-L
[2] Table C-2

NOTE: The unit costs in Table C-4 for 2 pounds and under and unit costs for 3 - 70 pounds in Table C-2 equate with those provided in response to UPS/USPS-T33-47 (revised 10/06/97) Tr ____/____.

Table C-5

Priority Mail
Implicit Coverage Factor (2.15) Times Applicable Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	<u>L-1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
2	2.88	3.28	3.53	3.60	3.58	3.58
3	3.15	3.97	4.51	4.67	4.62	4.63
4	3.33	4.42	5.14	5.35	5.29	5.29
5	3.50	4.87	5.76	6.03	5.96	5.96
6	3.68	5.32	6.39	6.72	6.62	6.63
7	3.85	5.77	7.02	7.40	7.29	7.29
8	4.03	6.22	7.65	8.08	7.95	7.96
9	4.20	6.67	8.27	8.76	8.62	8.63
10	4.38	7.12	8.90	9.44	9.28	9.29
11	4.56	7.56	9.53	10.12	9.95	9.96
12	4.73	8.01	10.15	10.80	10.61	10.63
13	4.91	8.46	10.78	11.48	11.28	11.29
14	5.08	8.91	11.41	12.16	11.94	11.96
15	5.26	9.36	12.04	12.85	12.61	12.63
16	5.43	9.81	12.66	13.53	13.27	13.29
17	5.61	10.26	13.29	14.21	13.94	13.96
18	5.78	10.71	13.92	14.89	14.60	14.63
19	5.96	11.15	14.54	15.57	15.27	15.29
20	6.13	11.60	15.17	16.25	15.94	15.96
21	6.31	12.05	15.80	16.93	16.60	16.63
22	6.48	12.50	16.43	17.61	17.27	17.29
23	6.66	12.95	17.05	18.29	17.93	17.96
24	6.83	13.40	17.68	18.97	18.60	18.63
25	7.01	13.85	18.31	19.66	19.26	19.29
26	7.18	14.30	18.93	20.34	19.93	19.96
27	7.36	14.74	19.56	21.02	20.59	20.63
28	7.53	15.19	20.19	21.70	21.26	21.29
29	7.71	15.64	20.82	22.38	21.92	21.96
30	7.88	16.09	21.44	23.06	22.59	22.62
31	8.06	16.54	22.07	23.74	23.25	23.29
32	8.23	16.99	22.70	24.42	23.92	23.96
33	8.41	17.44	23.32	25.10	24.58	24.62
34	8.58	17.88	23.95	25.79	25.25	25.29
35	8.76	18.33	24.58	26.47	25.91	25.96
36	8.93	18.78	25.21	27.15	26.58	26.62
37	9.11	19.23	25.83	27.83	27.25	27.29
38	9.28	19.68	26.46	28.51	27.91	27.96
39	9.46	20.13	27.09	29.19	28.58	28.62
40	9.63	20.58	27.71	29.87	29.24	29.29
41	9.81	21.03	28.34	30.55	29.91	29.96
42	9.98	21.47	28.97	31.23	30.57	30.62
43	10.16	21.92	29.60	31.92	31.24	31.29
44	10.33	22.37	30.22	32.60	31.90	31.96
45	10.51	22.82	30.85	33.28	32.57	32.62
46	10.68	23.27	31.48	33.96	33.23	33.29
47	10.86	23.72	32.10	34.64	33.90	33.96
48	11.03	24.17	32.73	35.32	34.56	34.62
49	11.21	24.62	33.36	36.00	35.23	35.29
50	11.38	25.06	33.99	36.68	35.89	35.96
51	11.56	25.51	34.61	37.36	36.56	36.62
52	11.73	25.96	35.24	38.05	37.23	37.29
53	11.91	26.41	35.87	38.73	37.89	37.95
54	12.08	26.86	36.49	39.41	38.56	38.62
55	12.26	27.31	37.12	40.09	39.22	39.29
56	12.43	27.76	37.75	40.77	39.89	39.95
57	12.61	28.20	38.38	41.45	40.55	40.62
58	12.79	28.65	39.00	42.13	41.22	41.29
59	12.96	29.10	39.63	42.81	41.88	41.95
60	13.14	29.55	40.26	43.49	42.55	42.62
61	13.31	30.00	40.88	44.17	43.21	43.29
62	13.49	30.45	41.51	44.86	43.88	43.95
63	13.66	30.90	42.14	45.54	44.54	44.62
64	13.84	31.35	42.77	46.22	45.21	45.29
65	14.01	31.79	43.39	46.90	45.87	45.95
66	14.19	32.24	44.02	47.58	46.54	46.62
67	14.36	32.69	44.65	48.26	47.20	47.29
68	14.54	33.14	45.27	48.94	47.87	47.95
69	14.71	33.59	45.90	49.62	48.54	48.62
70	14.89	34.04	46.53	50.30	49.20	49.29

Source:
Table C-3 x 2.15

Table C-6

Priority Mail
Initial Cost-Based Rates with 100 Percent
Passthrough for Distance-related Costs

Weight (Pounds)	<u>L1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
2	3.06	3.48	3.68	3.83	3.90	3.95
3	3.54	4.40	4.82	5.17	5.30	5.72
4	3.85	4.99	5.55	6.01	6.19	6.75
5	4.15	5.57	6.28	6.86	7.08	7.78
6	4.45	6.16	7.01	7.70	7.97	8.81
7	4.76	6.75	7.74	8.55	8.87	9.84
8	5.06	7.34	8.47	9.40	9.76	10.88
9	5.37	7.93	9.20	10.24	10.65	11.91
10	5.67	8.52	9.93	11.09	11.54	12.94
11	5.98	9.11	10.66	11.93	12.43	13.97
12	6.28	9.70	11.39	12.78	13.32	15.00
13	6.58	10.29	12.12	13.62	14.21	16.03
14	6.89	10.88	12.85	14.47	15.10	17.06
15	7.19	11.47	13.58	15.32	15.99	18.09
16	7.50	12.06	14.31	16.16	16.88	19.12
17	7.80	12.65	15.04	17.01	17.78	20.15
18	8.11	13.23	15.77	17.85	18.67	21.18
19	8.41	13.82	16.50	18.70	19.56	22.22
20	8.71	14.41	17.23	19.54	20.45	23.25
21	9.02	15.00	17.96	20.39	21.34	24.28
22	9.32	15.59	18.69	21.24	22.23	25.31
23	9.63	16.18	19.42	22.08	23.12	26.34
24	9.93	16.77	20.15	22.93	24.01	27.37
25	10.24	17.36	20.88	23.77	24.90	28.40
26	10.54	17.95	21.61	24.62	25.79	29.43
27	10.84	18.54	22.34	25.47	26.69	30.46
28	11.15	19.13	23.07	26.31	27.58	31.49
29	11.45	19.72	23.80	27.16	28.47	32.52
30	11.76	20.30	24.53	28.00	29.36	33.56
31	12.06	20.89	25.26	28.85	30.25	34.59
32	12.36	21.48	25.99	29.69	31.14	35.62
33	12.67	22.07	26.72	30.54	32.03	36.65
34	12.97	22.66	27.45	31.39	32.92	37.68
35	13.28	23.25	28.18	32.23	33.81	38.71
36	13.58	23.84	28.91	33.08	34.70	39.74
37	13.89	24.43	29.63	33.92	35.60	40.77
38	14.19	25.02	30.36	34.77	36.49	41.80
39	14.49	25.61	31.09	35.61	37.38	42.83
40	14.80	26.20	31.82	36.46	38.27	43.86
41	15.10	26.79	32.55	37.31	39.16	44.89
42	15.41	27.38	33.28	38.15	40.05	45.93
43	15.71	27.96	34.01	39.00	40.94	46.96
44	16.02	28.55	34.74	39.84	41.83	47.99
45	16.32	29.14	35.47	40.69	42.72	49.02
46	16.62	29.73	36.20	41.54	43.61	50.05
47	16.93	30.32	36.93	42.38	44.51	51.08
48	17.23	30.91	37.66	43.23	45.40	52.11
49	17.54	31.50	38.39	44.07	46.29	53.14
50	17.84	32.09	39.12	44.92	47.18	54.17
51	18.15	32.68	39.85	45.76	48.07	55.20
52	18.45	33.27	40.58	46.61	48.96	56.23
53	18.75	33.86	41.31	47.46	49.85	57.27
54	19.06	34.45	42.04	48.30	50.74	58.30
55	19.36	35.03	42.77	49.15	51.63	59.33
56	19.67	35.62	43.50	49.99	52.52	60.36
57	19.97	36.21	44.23	50.84	53.42	61.39
58	20.28	36.80	44.96	51.68	54.31	62.42
59	20.58	37.39	45.69	52.53	55.20	63.45
60	20.88	37.98	46.42	53.38	56.09	64.48
61	21.19	38.57	47.15	54.22	56.98	65.51
62	21.49	39.16	47.88	55.07	57.87	66.54
63	21.80	39.75	48.61	55.91	58.76	67.57
64	22.10	40.34	49.34	56.76	59.65	68.60
65	22.41	40.93	50.07	57.61	60.54	69.64
66	22.71	41.52	50.80	58.45	61.43	70.67
67	23.01	42.10	51.53	59.30	62.33	71.70
68	23.32	42.69	52.26	60.14	63.22	72.73
69	23.62	43.28	52.99	60.99	64.11	73.76
70	23.93	43.87	53.72	61.83	65.00	74.79

Source:
Table C-5 Plus Distance-Related Transportation Costs (Table C-1)
including 1 percent contingency

Table C-7

Priority Mail
NDMS Proposed Rates

Weight (Pounds)	<u>L, 1, 2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
FLAT	3.30	3.30	3.30	3.30	3.30	3.30
2	3.30	3.30	3.30	3.30	3.30	3.30
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.70	6.90	7.00	7.70	7.95	8.80
7	6.80	7.00	7.75	8.55	8.85	9.85
8	6.90	7.35	8.45	9.40	9.75	10.90
9	7.00	7.95	9.20	10.25	10.65	11.90
10	7.10	8.50	9.95	11.10	11.55	12.95
11	7.20	9.10	10.65	11.95	12.45	13.95
12	7.30	9.70	11.40	12.80	13.30	15.00
13	7.40	10.30	12.10	13.60	14.20	16.05
14	7.50	10.90	12.85	14.45	15.10	17.05
15	7.60	11.50	13.60	15.30	16.00	18.10
16	7.70	12.05	14.30	16.15	16.90	19.10
17	7.80	12.65	15.05	17.00	17.80	20.15
18	8.10	13.25	15.75	17.85	18.65	21.20
19	8.40	13.80	16.50	18.70	19.55	22.20
20	8.70	14.40	17.25	19.55	20.45	23.25
21	9.00	15.00	17.95	20.40	21.35	24.30
22	9.30	15.60	18.70	21.25	22.25	25.30
23	9.65	16.20	19.40	22.10	23.10	26.35
24	9.95	16.80	20.15	22.95	24.00	27.35
25	10.25	17.35	20.90	23.75	24.90	28.40
26	10.55	17.95	21.60	24.60	25.80	29.45
27	10.85	18.55	22.35	25.45	26.70	30.45
28	11.15	19.15	23.05	26.30	27.60	31.50
29	11.45	19.70	23.80	27.15	28.45	32.50
30	11.75	20.30	24.55	28.00	29.35	33.55
31	12.05	20.90	25.25	28.85	30.25	34.60
32	12.35	21.50	26.00	29.70	31.15	35.60
33	12.65	22.05	26.70	30.55	32.05	36.65
34	12.95	22.65	27.45	31.40	32.90	37.70
35	13.30	23.25	28.20	32.25	33.80	38.70
36	13.60	23.85	28.90	33.10	34.70	39.75
37	13.90	24.45	29.65	33.90	35.60	40.75
38	14.20	25.00	30.35	34.75	36.50	41.80
39	14.50	25.60	31.10	35.60	37.40	42.85
40	14.80	26.20	31.80	36.45	38.25	43.85
41	15.10	26.80	32.55	37.30	39.15	44.90
42	15.40	27.40	33.30	38.15	40.05	45.95
43	15.70	27.95	34.00	39.00	40.95	46.95
44	16.00	28.55	34.75	39.85	41.85	48.00
45	16.30	29.15	35.45	40.70	42.70	49.00
46	16.60	29.75	36.20	41.55	43.60	50.05
47	16.95	30.30	36.95	42.40	44.50	51.10
48	17.25	30.90	37.65	43.25	45.40	52.10
49	17.55	31.50	38.40	44.05	46.30	53.15
50	17.85	32.10	39.10	44.90	47.20	54.15
51	18.15	32.70	39.85	45.75	48.10	55.20
52	18.45	33.25	40.60	46.60	48.95	56.25
53	18.75	33.85	41.30	47.45	49.85	57.25
54	19.05	34.45	42.05	48.30	50.75	58.30
55	19.35	35.05	42.75	49.15	51.65	59.35
56	19.65	35.60	43.50	50.00	52.50	60.35
57	19.95	36.20	44.25	50.85	53.40	61.40
58	20.30	36.80	44.95	51.70	54.30	62.40
59	20.60	37.40	45.70	52.55	55.20	63.45
60	20.90	38.00	46.40	53.40	56.10	64.50
61	21.20	38.55	47.15	54.20	57.00	65.50
62	21.50	39.15	47.90	55.05	57.85	66.55
63	21.80	39.75	48.60	55.90	58.75	67.55
64	22.10	40.35	49.35	56.75	59.65	68.60
65	22.40	40.95	50.05	57.60	60.55	69.65
66	22.70	41.50	50.80	58.45	61.45	70.65
67	23.00	42.10	51.55	59.30	62.35	71.70
68	23.30	42.70	52.25	60.15	63.30	72.75
69	23.60	43.30	53.00	61.00	64.10	73.75
70	23.95	43.85	53.70	61.85	65.00	74.80

Source:

Table C-6 with zoned weight cells rounded to the nearest nickel

Table C-8

Priority Mail
Percentage Change, NDMS Proposed Rates
from R94-1 Remand Rates

Weight (Pounds)	<u>L 1.2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
FLAT	0.10	0.10	0.10	0.10	0.10	0.10
2	0.10	0.10	0.10	0.10	0.10	0.10
3	0.10	0.10	0.10	0.10	0.10	0.10
4	0.10	0.10	0.10	0.10	0.10	0.10
5	0.10	0.10	0.10	0.10	0.10	0.10
6	0.06	0.00	-0.01	0.07	0.02	0.10
7	0.02	-0.07	-0.04	0.02	-0.04	0.01
8	-0.01	-0.08	-0.06	-0.01	-0.06	-0.06
9	-0.05	-0.08	-0.06	-0.03	-0.06	-0.08
10	-0.09	-0.09	-0.06	-0.03	-0.05	-0.08
11	-0.13	-0.08	-0.06	-0.02	-0.04	-0.08
12	-0.16	-0.08	-0.06	-0.02	-0.04	-0.07
13	-0.19	-0.08	-0.05	-0.01	-0.04	-0.07
14	-0.21	-0.08	-0.06	-0.01	-0.03	-0.07
15	-0.24	-0.08	-0.05	0.00	-0.03	-0.06
16	-0.26	-0.08	-0.05	0.00	-0.03	-0.06
17	-0.28	-0.08	-0.05	0.00	-0.02	-0.06
18	-0.28	-0.08	-0.05	0.01	-0.02	-0.06
19	-0.28	-0.08	-0.04	0.01	-0.02	-0.06
20	-0.28	-0.08	-0.04	0.01	-0.02	-0.05
21	-0.29	-0.08	-0.04	0.01	-0.01	-0.05
22	-0.28	-0.08	-0.04	0.02	-0.01	-0.05
23	-0.28	-0.08	-0.04	0.02	-0.01	-0.05
24	-0.28	-0.08	-0.03	0.02	-0.01	-0.05
25	-0.28	-0.08	-0.03	0.02	-0.01	-0.05
26	-0.28	-0.08	-0.03	0.02	-0.01	-0.05
27	-0.28	-0.08	-0.03	0.02	-0.01	-0.05
28	-0.29	-0.08	-0.03	0.03	0.00	-0.05
29	-0.29	-0.08	-0.03	0.03	-0.01	-0.05
30	-0.29	-0.08	-0.03	0.03	0.00	-0.04
31	-0.29	-0.08	-0.03	0.03	0.00	-0.04
32	-0.29	-0.08	-0.02	0.03	0.00	-0.04
33	-0.29	-0.08	-0.02	0.03	0.00	-0.04
34	-0.29	-0.08	-0.02	0.03	0.00	-0.04
35	-0.34	-0.08	-0.02	0.03	0.00	-0.04
36	-0.29	-0.08	-0.02	0.04	0.00	-0.04
37	-0.29	-0.08	-0.02	0.04	0.00	-0.04
38	-0.29	-0.08	-0.02	0.04	0.00	-0.04
39	-0.29	-0.08	-0.02	0.04	0.00	-0.04
40	-0.29	-0.08	-0.02	0.04	0.00	-0.04
41	-0.29	-0.08	-0.02	0.04	0.01	-0.04
42	-0.29	-0.08	-0.02	0.04	0.01	-0.04
43	-0.29	-0.08	-0.02	0.04	0.01	-0.04
44	-0.29	-0.08	-0.02	0.04	0.01	-0.04
45	-0.29	-0.08	-0.02	0.04	0.01	-0.04
46	-0.30	-0.08	-0.01	0.04	0.01	-0.04
47	-0.29	-0.08	-0.01	0.04	0.01	-0.04
48	-0.29	-0.08	-0.01	0.04	0.01	-0.04
49	-0.29	-0.08	-0.01	0.04	0.01	-0.04
50	-0.29	-0.08	-0.01	0.04	0.01	-0.04
51	-0.29	-0.08	-0.01	0.04	0.01	-0.03
52	-0.29	-0.08	-0.01	0.04	0.01	-0.03
53	-0.29	-0.08	-0.01	0.05	0.01	-0.03
54	-0.29	-0.08	-0.01	0.05	0.01	-0.03
55	-0.29	-0.08	-0.01	0.05	0.01	-0.03
56	-0.29	-0.08	-0.01	0.05	0.01	-0.03
57	-0.29	-0.08	-0.01	0.05	0.01	-0.03
58	-0.29	-0.08	-0.01	0.05	0.01	-0.03
59	-0.29	-0.08	-0.01	0.05	0.01	-0.03
60	-0.29	-0.08	-0.01	0.05	0.01	-0.03
61	-0.29	-0.08	-0.01	0.05	0.01	-0.03
62	-0.29	-0.08	-0.01	0.05	0.01	-0.03
63	-0.29	-0.08	-0.01	0.05	0.01	-0.03
64	-0.29	-0.08	-0.01	0.05	0.01	-0.03
65	-0.29	-0.08	-0.01	0.05	0.01	-0.03
66	-0.29	-0.08	-0.01	0.05	0.01	-0.03
67	-0.29	-0.08	-0.01	0.05	0.01	-0.03
68	-0.29	-0.08	-0.01	0.05	0.00	-0.03
69	-0.29	-0.08	-0.01	0.05	0.01	-0.03
70	-0.29	-0.08	-0.01	0.05	0.01	-0.03

Sources:

- [1] Table C-8, NDMS Proposed Rates
[2] R-94-1 Remand Rates (Appendix B)

Table C-9

Priority Mail
Projected TYAR Volumes
NDMS Proposed Rates

Weight (Pounds)	L1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	40,569,148	11,562,288	13,031,529	8,435,488	6,581,573	10,810,414	90,980,450
1	220,670,785	48,253,249	49,359,038	28,018,350	19,891,737	39,874,240	406,067,399
2	181,153,638	48,259,573	48,182,726	26,712,088	19,649,903	38,815,127	362,773,055
3	47,584,363	14,721,993	14,829,962	9,217,564	6,415,069	13,505,500	106,274,449
4	16,374,490	5,382,153	6,331,506	3,978,560	2,687,526	6,080,430	42,844,667
5	8,884,245	2,850,116	3,249,567	2,101,275	1,509,033	3,186,553	21,790,789
6	5,078,229	1,700,914	1,985,432	1,142,198	992,161	2,006,334	12,905,268
7	3,055,509	1,205,354	1,184,715	837,255	680,331	1,379,592	8,342,757
8	1,992,725	742,982	747,018	540,110	484,082	1,078,073	5,584,991
9	1,368,836	531,988	686,862	313,497	299,856	726,781	3,927,619
10	988,677	412,833	483,085	246,899	261,706	559,626	2,952,625
11	686,120	261,272	319,499	230,091	186,324	513,228	2,206,534
12	405,163	170,024	324,774	167,815	154,580	420,475	1,642,831
13	410,089	116,127	236,530	137,871	85,362	324,292	1,310,272
14	292,941	119,346	249,016	105,398	98,758	277,974	1,143,432
15	256,000	74,284	140,519	78,892	84,277	191,970	805,942
16	282,365	55,365	83,597	65,071	63,782	207,743	737,924
17	211,061	85,242	87,392	42,524	55,312	185,985	647,516
18	149,074	68,817	75,983	38,204	47,376	176,804	556,258
19	116,458	30,951	77,254	36,529	51,758	148,661	459,611
20	115,881	39,837	57,556	24,390	37,942	112,367	387,971
21	93,543	25,470	48,508	17,034	23,222	124,285	332,062
22	109,618	30,716	34,143	19,368	18,545	80,816	293,206
23	168,778	29,146	21,557	15,575	27,105	76,553	338,715
24	75,858	13,219	27,454	18,649	19,475	72,641	227,296
25	76,363	27,200	15,925	25,804	11,150	49,317	205,759
26	106,974	16,298	18,831	7,686	12,866	37,068	199,523
27	43,755	14,913	28,654	11,384	13,946	32,812	145,463
28	48,024	6,901	12,327	7,781	20,419	29,832	125,283
29	36,588	3,588	10,684	3,109	8,812	23,237	86,019
30	41,575	14,609	8,576	3,959	13,389	19,646	101,753
31	32,051	41,400	9,701	13,995	17,157	20,718	135,022
32	31,077	15,998	16,694	23,385	5,884	21,486	114,524
33	32,006	9,500	30,476	8,272	4,277	27,713	112,244
34	26,787	4,621	3,055	7,785	7,719	16,039	66,005
35	36,433	2,196	11,996	7,558	5,447	15,998	79,626
36	11,947	13,944	4,444	6,994	4,743	17,653	59,724
37	7,455	8,468	1,480	4,917	1,894	16,456	40,670
38	28,093	8,100	3,898	2,517	3,550	13,043	59,201
39	20,320	2,691	4,279	4,515	2,342	15,130	49,277
40	14,633	2,638	10,496	3,138	2,389	14,848	48,141
41	11,964	5,730	232	543	6,545	12,759	37,773
42	7,487	4,342	12,460	1,949	5,550	8,254	40,044
43	2,134	511	2,224	4,618	287	3,578	13,352
44	11,191	1,729	3,200	1,282	2,549	4,274	24,225
45	1,333	1,592	732	2,701	1,415	5,075	12,848
46	2,430	3,821	991	1,957	1,192	8,224	18,616
47	2,087	715	212	1,526	996	3,154	8,689
48	3,859	201	1,685	1,503	1,239	2,674	11,161
49	3,572	453	829	1,199	1,284	6,685	14,022
50	6,139	338	280	740	421	9,362	17,280
51	8,605	3,042	0	493	0	1,753	13,894
52	3,309	1,215	1,185	1,038	7,335	9,598	23,681
53	2,802	409	29	3,439	981	1,063	8,724
54	1,316	0	3,054	877	0	22	5,270
55	634	529	0	184	847	4,866	7,060
56	1,369	1,277	689	199	684	2,107	6,304
57	3,539	0	0	0	280	2,925	6,744
58	609	0	290	2,085	263	4,629	7,877
59	517	567	0	1,050	2,099	1,655	5,888
60	144	52	447	1,207	548	1,006	3,405
61	3,005	0	0	0	470	316	3,791
62	3,591	0	29	0	47	2,052	5,719
63	1,864	0	565	0	718	896	3,842
64	511	0	837	0	0	220	1,567
65	321	0	29	22	0	250	623
66	617	0	0	0	0	559	1,175
67	98	7,413	174	0	112	849	8,645
68	877	0	0	0	0	671	1,548
69	1,517	6,561	0	212	0	256	8,546
70	4,549	0	65	104	0	0	4,717
	533,779,466	136,976,821	142,036,755	82,712,231	60,578,443	121,415,191	1,077,498,906

Sources:

- [1] TYBR Volume (USPS-33L).
[2] Table C-10.

Table C-10

Priority Mail
Projected TYAR Revenues
NDMS Proposed Rates

Weight (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	133,878,189	38,155,550	43,004,046	27,837,143	21,719,191	35,674,367	300,268,484
1	728,213,590	159,235,721	162,884,825	82,480,554	65,642,733	131,584,992	1,340,022,415
2	597,807,005	159,256,591	159,002,995	88,149,892	64,844,680	128,089,920	1,197,151,083
3	209,371,195	64,776,768	65,251,831	40,557,280	28,226,303	59,424,201	467,607,578
4	101,059,698	29,801,840	34,823,297	21,882,079	14,836,391	33,442,366	235,645,670
5	58,636,018	18,810,786	21,447,140	13,868,416	9,959,618	21,067,250	143,819,208
6	34,024,133	11,736,304	13,888,025	8,799,019	7,887,683	17,655,735	94,000,899
7	20,777,461	8,437,481	9,181,543	7,158,011	6,020,930	13,588,980	65,164,406
8	13,749,804	5,460,919	6,312,304	5,074,429	4,719,801	11,750,994	47,068,251
9	9,581,851	4,229,306	6,315,828	3,213,341	3,192,811	8,648,695	35,181,833
10	7,019,605	3,509,079	4,806,692	2,738,358	3,022,708	7,247,152	28,343,594
11	4,940,067	2,377,578	3,402,662	2,749,582	2,444,239	7,159,529	23,073,657
12	2,957,693	1,649,091	3,702,420	2,148,037	2,055,909	6,306,852	18,820,000
13	3,034,660	1,196,113	2,862,012	1,675,045	1,212,139	5,204,894	15,384,663
14	2,197,061	1,300,867	3,199,196	1,522,994	1,491,521	4,739,453	14,451,092
15	1,945,599	854,263	1,911,057	1,207,046	1,028,436	3,474,659	10,421,060
16	2,174,213	667,148	909,435	1,050,901	1,077,920	3,967,894	9,847,511
17	1,646,504	1,077,894	1,014,254	722,901	984,551	3,748,296	9,194,399
18	1,207,496	911,823	1,196,738	682,054	883,565	3,748,252	8,629,927
19	978,250	427,129	1,274,442	683,048	1,011,872	3,255,869	7,630,610
20	1,008,163	573,658	992,834	476,816	775,660	2,612,115	6,439,445
21	841,885	382,099	870,712	347,488	495,797	3,020,135	5,958,115
22	1,019,446	479,173	638,468	411,572	412,617	2,044,648	5,005,924
23	1,628,709	472,172	418,198	344,215	626,125	2,017,176	5,506,595
24	754,791	222,082	553,087	428,000	467,405	1,986,721	4,412,087
25	782,723	471,913	332,841	612,840	277,687	1,400,631	3,878,635
26	1,128,579	292,509	406,759	189,064	326,795	1,091,642	3,435,348
27	474,742	276,632	640,408	289,728	372,348	999,124	3,052,983
28	535,362	132,146	284,131	204,632	563,566	939,704	2,659,540
29	419,014	70,684	254,244	84,401	250,702	755,208	1,834,253
30	488,505	296,630	210,531	110,871	392,958	659,114	2,158,609
31	366,218	665,260	244,943	403,737	518,993	716,839	3,135,982
32	383,805	343,957	434,038	694,524	183,273	764,914	2,804,513
33	404,872	209,486	813,720	252,702	137,091	1,015,607	2,833,477
34	346,895	104,673	83,840	244,439	253,940	604,659	1,638,446
35	448,120	51,053	338,281	243,733	184,096	619,122	1,884,406
36	162,482	332,559	128,422	231,509	164,599	701,695	1,721,265
37	103,628	207,035	43,879	166,700	67,401	670,572	1,259,215
38	398,926	202,512	118,312	87,459	129,558	545,222	1,481,990
39	294,644	68,895	133,080	160,722	87,596	648,307	1,393,245
40	216,549	69,098	333,759	114,386	91,395	651,073	1,476,261
41	180,690	153,569	7,561	20,236	256,255	572,872	1,191,183
42	115,306	118,982	414,927	74,364	222,291	379,282	1,325,152
43	33,502	14,273	75,630	180,074	11,759	168,000	483,239
44	179,059	49,356	111,195	51,089	106,690	205,145	702,535
45	21,720	46,419	25,938	109,917	60,431	248,680	513,105
46	39,613	113,668	35,894	81,325	51,973	411,609	734,082
47	35,373	21,658	7,825	64,710	44,314	161,171	335,051
48	66,563	6,220	63,452	65,021	56,228	139,321	396,804
49	62,684	14,268	31,617	52,820	59,451	355,317	576,356
50	109,585	10,840	10,937	33,243	19,891	506,952	691,447
51	156,146	99,486	0	22,573	0	96,750	374,955
52	61,043	40,404	48,120	48,372	359,066	539,914	1,096,920
53	52,543	13,844	1,198	163,203	48,920	60,885	340,592
54	25,066	0	128,440	42,378	0	1,281	197,165
55	12,269	18,536	0	9,040	43,769	288,812	372,425
56	26,896	45,474	29,084	9,962	35,898	127,148	274,462
57	70,600	0	0	0	14,959	179,608	265,167
58	12,371	0	13,041	107,810	14,296	288,869	436,386
59	10,660	21,221	0	55,157	115,874	104,985	307,897
60	3,000	1,987	20,750	64,472	30,741	64,916	185,866
61	63,701	0	0	0	26,793	20,704	111,198
62	77,204	0	1,389	0	2,699	136,582	217,874
63	36,264	0	27,472	0	42,169	60,504	166,409
64	11,291	0	41,288	0	0	15,065	67,643
65	7,196	0	1,451	1,288	0	17,416	27,351
66	13,997	0	0	0	0	39,473	53,470
67	2,245	312,103	8,960	0	7,006	60,864	391,178
68	20,438	0	0	0	0	48,792	69,231
69	35,797	284,099	0	12,918	0	18,888	351,700
70	108,944	0	3,500	6,403	0	0	118,846
1,949,079,914 521,182,860 555,785,102 331,756,042 250,674,276 539,594,384							4,148,072,578

Sources:

[1] Table C-7

[2] Table C-9

Table C-11

Priority Mail
Projected TYAR Costs
Including 1 Percent Contingency
NDMS Proposed Rates

Weight (Pounds)	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	58,148,326	18,174,952	21,074,222	14,375,950	11,569,487	20,508,306	143,851,243
1	316,290,514	75,850,083	79,822,046	47,749,452	34,866,899	75,644,938	630,323,932
2	297,798,750	92,711,798	96,925,207	58,385,016	45,057,123	99,811,138	690,689,033
3	88,244,686	33,423,299	35,681,820	24,585,173	18,142,641	43,836,302	243,913,921
4	37,944,734	14,098,482	17,731,443	12,527,307	9,072,488	23,836,336	115,210,789
5	20,217,561	8,461,076	10,382,216	7,628,046	5,882,810	14,686,672	67,258,381
6	12,625,757	5,643,407	7,126,509	4,696,369	4,398,779	10,571,162	45,061,982
7	8,240,218	4,420,105	4,719,722	3,845,671	3,380,338	8,199,270	32,805,323
8	5,793,704	2,984,001	3,270,663	2,740,888	2,664,291	7,134,275	24,587,823
9	4,268,051	2,322,362	3,277,254	1,741,843	1,810,810	5,299,674	18,719,993
10	3,290,912	1,946,354	2,496,186	1,489,487	1,720,475	4,458,169	15,401,583
11	2,428,311	1,323,036	1,776,933	1,499,998	1,396,710	4,434,650	12,858,638
12	1,519,273	920,342	1,934,375	1,174,818	1,181,658	3,916,752	10,647,219
13	1,624,103	689,150	1,502,088	1,031,572	898,215	3,239,496	8,764,623
14	1,221,845	729,368	1,679,604	839,349	860,635	2,964,254	8,295,054
15	1,121,674	479,918	1,003,222	666,253	594,548	2,178,586	6,042,199
16	1,296,658	377,023	479,129	580,868	624,101	2,495,517	5,853,296
17	1,013,667	610,242	534,306	400,067	570,819	2,358,569	5,488,671
18	747,351	516,687	632,390	377,620	514,275	2,362,324	5,150,847
19	608,385	243,195	673,436	378,844	589,540	2,058,471	4,551,852
20	629,752	326,927	524,426	264,690	452,468	1,652,907	3,851,170
21	528,055	217,914	461,118	193,062	289,363	1,912,046	3,601,558
22	641,884	273,525	338,031	228,846	240,999	1,297,801	3,021,086
23	1,023,849	269,724	221,925	191,531	366,753	1,280,967	3,354,749
24	476,150	126,948	293,452	238,311	273,937	1,264,485	2,873,293
25	495,400	270,704	176,515	342,161	162,807	891,732	2,339,319
26	716,514	167,893	216,153	105,612	191,722	695,246	2,093,140
27	302,286	158,834	340,197	161,919	218,547	637,553	1,819,335
28	341,890	75,907	151,214	114,412	330,921	599,765	1,814,109
29	268,185	40,721	135,282	47,209	147,528	482,850	1,121,775
30	313,490	170,902	111,964	62,033	231,313	421,471	1,311,172
31	248,428	498,772	130,480	226,008	305,597	458,444	1,867,729
32	247,423	198,325	231,125	388,900	107,946	489,938	1,663,657
33	261,554	121,093	433,967	141,546	80,766	650,600	1,689,527
34	224,550	60,517	44,704	136,960	149,873	387,351	1,003,955
35	313,075	29,521	180,276	136,604	108,674	397,156	1,165,306
36	105,182	192,334	68,534	129,788	97,169	450,140	1,043,146
37	67,205	119,756	23,408	93,618	39,807	430,715	774,509
38	259,163	117,392	63,197	49,127	76,520	350,182	915,582
39	191,735	39,941	71,059	90,298	51,745	416,412	861,190
40	141,152	40,067	178,431	64,277	54,068	418,665	896,659
41	117,925	89,044	4,040	11,373	151,614	368,368	742,364
42	75,379	68,995	221,661	41,801	131,531	243,879	783,245
43	21,932	8,292	40,449	101,248	6,959	108,136	287,017
44	117,380	28,671	59,448	28,728	63,144	132,039	429,411
45	14,257	26,970	13,882	61,818	35,811	160,216	312,953
46	26,513	66,044	19,201	45,745	30,801	265,172	453,476
47	23,207	12,605	4,185	36,404	26,264	103,824	206,488
48	43,723	3,620	33,969	36,584	33,329	89,829	241,054
49	41,223	6,304	17,028	29,757	35,240	229,077	360,628
50	72,149	6,309	5,859	18,729	11,791	327,115	441,952
51	102,941	57,901	0	12,719	0	62,419	235,981
52	40,276	23,551	25,760	27,259	213,090	348,324	678,260
53	34,696	8,069	642	91,978	29,032	39,311	203,727
54	16,572	0	68,795	23,885	0	827	110,078
55	8,119	10,803	0	5,096	25,977	186,439	236,434
56	17,814	26,540	15,585	5,616	21,327	82,140	169,023
57	46,806	0	0	0	8,887	116,018	171,710
58	8,189	0	6,992	60,785	8,493	186,726	271,185
59	7,062	12,384	0	31,101	68,846	67,855	187,248
60	1,989	1,159	11,130	36,356	18,264	41,953	110,853
61	42,273	0	0	0	15,919	13,389	71,581
62	51,275	0	744	0	1,605	88,318	141,942
63	24,107	0	14,738	0	25,076	39,148	103,070
64	7,510	0	22,143	0	0	9,747	39,400
65	4,790	0	779	727	0	11,267	17,563
66	9,324	0	0	0	0	25,550	34,874
67	1,496	182,484	4,806	0	4,166	39,393	232,346
68	13,634	0	0	0	0	31,575	45,209
69	23,885	166,108	0	7,294	0	12,230	209,527
70	72,616	0	1,879	3,616	0	0	78,111
873,330,454 270,230,446 297,711,954 190,840,320 150,641,333 359,010,570							<u>2,141,765,077</u>

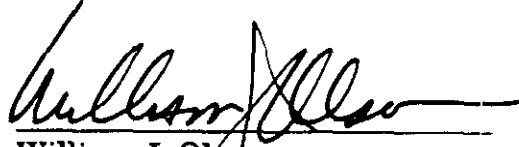
Sources:

[1] Table C-2

[2] Table C-9

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


William J. Olson

December 30, 1997